Investigation on how Brexit has impacted IPO listings with Deutsche Börse and the London Stock Exchange

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Abstract:
This qualitative study, which was conducted as semi-structured interviews, studies the impact of Brexit on IPO listings in London and Frankfurt.
The study addresses the main research question: “How an uncertainty due to Brexit causes a shift in IPO trends between the London Stock Exchange and Deutsche Börse?”
The purpose of this thesis was to explore the factors and challenges of Brexit implications on IPO trends between the two stock exchanges LSE and DB.
The study was conducted between a total of 5 IPO experts from Britain and Germany. The aim was to examine whether there are reasons for companies to follow a certain listing pattern in times of uncertainty.
The research question follows the aim of the thesis. Uncertainty over Brexit is among the risk factors to possibly shift IPO trends. The literature review consists of themes that are closely connected to the IPO decision making, pre-IPO considerations, and Brexit.
There are differences between investing culture, ecosystem, and knowledge base in Germany and the UK. The importance of strategy considerations, preferences, costs of IPO, and valuation are core pre-IPO indicators.
The author has discussed the possible outcome of the post Brexit environment with various experts. The thesis measures the data available from LSE, DB, EY, PwC, and KPMG IPO reports.
Finally, this paper explores the extent of the uncertainty of Brexit in a more direct manner by relating the number of listings and deal value on researched stock exchanges.
Consistent with the interviews, the author’s empirical results suggest that a drastic change in IPO trends between LSE and DB was not found. In addition, the research revealed that home listing bias plays an important role in the limited cross border listing trend.
Further research on the topic is needed and it is recommended to use up-to-date data after Brexit is fully executed in 2021. Due to Brexit being a relatively new issue and lack of research, definite conclusions are avoided in this thesis. The author gives suggestions for future research on IPO trends correlation with Brexit.

Keywords:	IPO, Brexit, Deutsche Börse, London Stock Exchange, qualitative Research, Arcada UAS, Frankfurt Fachhochschule
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1. INTRODUCTION

"We must, indeed, all hang together or, most assuredly, we shall all hang separately." - Benjamin Franklin

The UK voted to leave the EU in the EU Referendum vote in June 2016, and originally this was expected to happen on 29 March 2019. As of now, from the 31st of January 2020, Britain legally left the EU and the UK considered by the EU as a third country. Uncertainty continuously disturbs the main capital markets' players i.e. investors. In this paper, the author discusses and investigates the implications of Brexit, as he searches for the possible cause to the trend shift of IPO listings between two major European stock exchanges Deutsche Börse in Frankfurt and the London Stock Exchange in London.

The Cambridge Dictionary (n.d.) defines the Stock Exchange as "a place where shares in companies are bought and sold, or the organization of people whose job is to do this buying or selling:". Investopedia (n.d.) furthers the definition by explaining that "A stock exchange does not own shares. Instead, it acts as a market where stock buyers connect with stock sellers. A stock exchange is a centralized location that brings corporations and governments together with investors so trading activity can take place."

The need for regulated and transparent Stock Exchanges increases with globalization. It is associated with the international division of labour, and this is due to the fact that each country, due to its natural and climatic conditions, cultural traditions, level of technological development, specializes in the production of those products that are most effective in a given country. Somewhere potatoes are growing splendidly, in some countries the richest reserves of gas and oil are concentrated, some countries can produce high-quality and cheap metal, others develop robots and high technologies, etc. The result is that a country that has certain competitive advantages in the production of one or another type of product, produces this product, fully satisfying its domestic needs, and, of course, an excess of this product goes to the world market. As a result, world trade is enormously developing.

Deutsche Börse Group (n.d.) states “Funding on the capital markets is particularly attractive to innovative companies that are growing. It can lay the foundation for future success. With an IPO, companies can raise capital and later increase it through capital increases. Before going public, the Deutsche Börse Venture Network ® brings young and fast-growing companies together with investors.”

To improve the KPIs, compete on the global arena, develop innovations and scale the business internationally, companies need capital. In this paper, the author examines IPO trends between the London Stock Exchange and Deutsche Börse, cases from 2016 to 2019 and how companies make their decisions in times of uncertainty caused by, for example, Brexit.

1.1 Research topic

There is a tremendous amount of published speculation by media around Brexit being one of the main reasons big companies decided not to go for London but rather choose New York or Frankfurt as a better city for their IPO debut. Evidence that IPO trends have shifted due to uncertainty is supported by reports of EY and PwC, but they include more than just the Brexit factor. There is no doubt that Brexit has affected business decisions and hindered economies and will affect them later in 2021. (EY UK, 2019) (PwC Europe, 2018)

It is extremely important to understand how current changes in legislation followed by UK withdrawal impact the decision making of companies on their way to become public offerings.

Capital markets are interconnected globally, and no uncertainty will stay unnoticed as the market will immediately react. It has viable importance for a company to prepare for possible implications Brexit causes.

This topic is especially at high priority, concerning continuous competition between two big European players such as LSE and DB, after their failed M&A in 2005.

Two cities, London and Frankfurt, are considered to be important financial centres in Europe, and the possible shift due to Brexit is likely to have an unpredictable outcome which clearly highlights the relevance of the current research problem. There is no single answer to the market's reaction, nor could it be solved by a single solution.

This research starts with a general understanding of how the company decides where and when to go public. KPMG, PwC, EY have clear guidance for companies.

Firstly, what should be considered the advantages and disadvantages of taking the company public and the alternative methods of financing available. Assessment of the market is necessary. In times of uncertainty, as in our case Brexit, there are less rational investors who want to conduct an operation due to high risks and not high enough valuations for companies. Investors tend to be risk averse. Evidence is developed as an asymmetric information model where firms postpone their equity issue if they know they are currently undervalued (Lucas and McDonald, 1990).

Considerations about the impact of going public on the company and assess whether the entity has a ready corporate governance approach to manage itself as a public company. It is highly important to have a proper answer to the following questions: "Is going public fit into company's strategic objectives? Does the company have the resources to execute its plan, bring the process to completion and continue as a public company? Are you and your team committed to this process?"

According to Tirol, 2006: "Going public is costly. First, firms must supply detailed information regularly to regulators and investors. This involves transaction costs as well as possibly disclosure of strategic information to product market rivals. Second, the firm must pay substantial underwriting and legal fees. In the United States, the commissions paid to investment bankers have converged in the late 1990s to 7% of the transaction for 90% of the IPOs (Chen and Ritter 2000). Firms raise more money in an initial public offering of shares when they have bank loans (James and Weir 1991). Also related is the evidence that the announcement of a bank loan grant raises the firm's stock price (Lummer and McConnell 1989)."
IPO leader, Dr. Steinbach in the EY guide to "going public": "There are many situations where companies start to evaluate an IPO as one of their strategic options. Funding or exit

motivations, growth, internationalization and changes in the respective industry are triggers for strategic considerations around an IPO. Depending on the stakeholder, a mix of situations and motivations can lead to initial IPO considerations."

According to the case studies and guide of the EY global IPO, preferences of company, deciding on where to list, includes very important considerations about prestige, critical mass of the marketplace, brand recognition potential, participation in indices, language and culture.

The evidence on the IPO decision is interpreted as suggesting that companies go public in response to favorable market conditions, but only if they are beyond a certain stage in their life cycle. (Ritter and Welch, 2002)

1.2 Problem statement

Due to the fact that Brexit process has not been completed yet, there is a limited amount of literature available. As a result, in order to gather information, the author has interviewed several market experts and analyzed their views on the matter.

To confirm the existing competencies and basic knowledge, the author of this thesis clarifies that in the summer of 2016 he was one of the first to receive introductory knowledge about Brexit and participated in the debates in the summer curriculum at UPEC University in Paris, where his professor was Boris Neumann.

This unprecedented event in history has come as a surprise to many and is filled with more questions than answers. The UK sought to join the European Union even after applications were not approved in 1963 and 1967. Only after 6 years on January 1 in 1973, Britain officially became a full member of the EU. Yet the UK allowed Eurosceptics to win in the 2016 referendum, after 47 long years of mutually beneficial membership of Britain in the EU. The loss of such a major leader will not pass without a trace, people will see the consequences for both the EU and Britain.

The problem statement in this research project is offered to its readers as an extraordinarily important and relevant fact. Since Brexit is a fairly new reform, it is not yet known how this will affect capital markets, the media vendors and experts have no single opinion. This study is expected to contribute to understanding of Brexit by bringing to the discussion table participants, experts, and IPO leaders from the stock exchanges. Due to insufficient previous research, it is rather complicated to use a proved theoretical framework or use it as a support by certain documents due to the novelty of the current investigation. Brexit is a hot and trending topic; it is particularly relevant as it is occurring as we speak. It will affect and bring changes to many of the industries in Europe. Trends in Capital markets, IPO is only one small fraction that the author focuses on during this research. The choice of subject justifies the fact that in Finland there is a lack of previous discussion about this topic. Thus, the aforementioned thesis has a pioneering role and brings scientific novelty.

Worthiness to conducting research is supported by the globalization factor, interconnectedness of capital markets. It carries direct importance and interest to every EU member state, including all companies who consider going public in the UK or Germany in the near future.

1.3 Research aim and questions

This research project aim is to shed light on the relatively new problem. It combines thoughts, experience, reports and opinions of top experts in the industry, derived particularly from IPO leaders, investors, and directors of stock exchanges.

Taking the aforementioned into consideration, it is vital to understand what the agenda of several stakeholders is. Thus, this thesis work provides reliable ground to further investigation. The important thing to bear in mind is the quality of information, which was obtained from trustworthy professionals each of them having more than 10 years of experience in the industry.

In the end, findings from this study will possibly help capital market stakeholders in the UK and Germany as well as companies' executives.

Therefore, the main research question this thesis attempt to answer is the following:

- **Does Brexit cause companies to move their IPOs from London to Frankfurt?**

1.4 Focus and demarcation

The author focuses their research on Deutsche Börse and the London stock exchange. This research highlights specifically on IPO trends on market platforms when conducting a listing as well as the factors that affect their selection of these institutions. This research also pays attention to some of the recent legal changes such as Passporting right and how they influence the choice behavior of pre-IPO companies, while selecting their stock exchange, especially how these recent law implications are influenced/triggered/affected by Brexit.

Therefore, this research shall shed light on the Brexit implications that these companies pay attention to as well as acquiring relevant information from the appropriate authorities of the Deutsche Börse Group and London Stock Exchange Group. Thus, respondents from Germany and Great Britain have been interviewed.

Furthermore, the number of respondents of this research can additionally be considered as a limitation because the thoughts and opinions of 6 (six) respondents cannot be generalized as factual and the true opinion and reality of all the active market participants.

Due to the scope of this bachelor thesis, the research will be limited to publicly listed foreign companies on Deutsche Börse Frankfurt and the London Stock exchanges who have had an IPO between 2015 and 2019 thus the author has obtained the data to compare environments before the announcement of Brexit, both during and after. Listings that did not include public offering are excluded in this study.

1.5 Thesis structure

The thesis is structured into six chapters:
Initially is the introductory chapter.
In the second chapter the relevant academic literature is reviewed and an overview of the current reports on IPO trends is presented.

The third chapter presents the methodology of this research, including an explanation of the chosen research approach and the motivation for the selection of the sample. Moreover, the methods for data collection and analysis are displayed. The chapter further assesses the investigation using criteria that are typically applied in evaluating qualitative studies.

The results of the empirical study are presented later in the fourth chapter.

In the fifth chapter, results are discussed, examined, and compared with prior reports and presented.

The conclusion is concluded in the last chapter. A summary of the main findings, and their possible practical implications are discussed, and recommendations for future research are made.

2 LITERATURE REVIEW

In this chapter the most relevant theories and definitions are presented, starting with recent trends on both stock exchanges and finishing with an overview of Brexit and the changes it caused.

In this chapter the researcher expresses the importance of IPOs and the main differences between two well-known stock exchanges by comparing up-to-date trends and related legislation applied concerning FSE and LSE. Particular interest in IPOs of non-residents, means that companies which are not from Britain listed in London, and non-German are on the DB system. At the end of this chapter the reader should have a very clear understanding of how these two exchanges compete and what are their main differences.

The trend is toward greater mobility of liquidity due to various innovations in communications, data processing, security design, and deregulation of securities markets, frictions and regulatory restrictions continue to inhibit transnational flows of liquidity. Taxes and other restrictions which impede the mobility of liquidity or listings may prompt some firms to list on low disclosure exchanges. While listing costs borne in part by insiders alter their tradeoffs in choosing an exchange, competition between exchanges with fully mobile liquidity results in both exchanges selecting the highest feasible standards. (Huddart, Brunnermeier, 1999)

Deutsche Boerse AG is a Germany-based exchange organization and an integrated provider of products and services covering the process chain of securities and derivatives trading. The Company offers listing and trading services and operates the trading platforms Xetra and Frankfurter Wertpapierboerse. The Deutscher Akrienindex, or simply the DAX 30, is seen as a gauge of the health of the German economy. The index tracks the performance of the 30 biggest companies traded on the Frankfurt Stock Exchange (FSE). The DAX 30 constituent businesses represent almost 75% of the total market capitalization of the FSE. For a long time, the German economy has held a leading position in the European Union, estimated as the fifth largest economy globally. That is why so many traders choose the DAX 30 to invest in the European stock market. (FT, 2020)

The London Stock Exchange Group PLC (LSEG) is a United Kingdom-based global financial markets infrastructure business. The Financial Times Stock Exchange 100 Index, commonly referred to as the FTSE 100, is a benchmark index that is commonly seen as a gauge of the UK economy's performance. It represents 81% of the UK's market value on the London Stock Exchange. The FTSE 100 includes shares of the 100 companies listed on the London Stock Exchange with the highest market capitalization. (FT, 2020)

At the moment, especially after the crisis caused by COVID-19, it became more difficult for company managers to make the right choice in favor of one stock exchange for an initial public offering, as exchanges can become the main catalyst for financial instability and associated macroeconomic risks. This is what the world observed during the financial crisis 2008.

Scientific and practical relevance of this thesis justified by the problem of choosing a site for the initial public offering, taking into account a number of requirements, such as listing requirements, the size of payments, access to liquidity, diversification of investors and regulatory considerations. Most of the world's companies on all these parameters prefer the London Stock Exchange, which, especially after the reforms of 1983-86 ("Big Bang"), has rightfully become one of the most international exchanges in the world. (Ronald Michie, 2004) Brexit uncertainties and sterling volatility have taken the blame for choking off the flow of new issues, as well as for UK market underperformance that made other venues more attractive for raising fresh capital. The FTSE All-Share gained just 14.2 per cent in 2019 while most US, European and global stock benchmarks all advanced by around 25 per cent. (FT, 2020)

The UK undoubtedly serves as a financial hub in Europe, which is the largest economy in the EU. (Eurostat, 2017) A lot is therefore at stake with Brexit. Without full and robust access to the EU's single market activity may partly move to the continent or even disappear. (DB research, 2018) Over past 50 years the UK became a magnet for foreign banks and investors, and UK stands out as one of the most international banking hubs globally, with 49% of bank assets from foreign owned banks, compared to Germany only 14%.(DB research 2018) As Britain does not have a passporting right within the EU nobody yet knows how those banks and investors will react. Cross-border banking services are mostly linked to passporting rights under the Markets in Financial Instruments Directive (MiFID) and also partly to the Capital Requirements Directive (CRD). The research group at Deutsche Bank is opiniated and offer us clear evidence of uncertainty might hinder the London Stock Exchange in favor of Deutsche Börse group:
”What's more, stock markets are more liquid in London than anywhere else in Europe. Average daily share turnover at the LSE amounted to USD 17 bn in 2017 (both electronic and negotiated deals) and was much larger than at Euronext (USD 7.8 bn) or Deutsche Börse (USD 5.8 bn). Foreign stocks account for a remarkable one-third of this turnover at the LSE, whereas they play a much smaller role at Deutsche Börse or Euronext. In addition, most of the foreign share trading at the LSE takes place in the form of negotiated deals rather than electronic orders, which may make this a more profitable business for investment banks. Even though the immediate impact may be limited, different rules for capital markets and investors will probably emerge and the free flow of capital between the EU and the UK will probably be hampered in the longer term as a result of Brexit. This is highly likely to make foreign stock listings at the LSE less attractive and to reduce UK-based banks' revenue pool from both underwriting and trading”.

Financial Times comments on 2019 year:
“The number of companies that listed on the London Stock Exchange in the first six months of 2019 plummeted to just 13, down from 38 during the same period in 2018, according to a report by Baker McKenzie, the law firm. The amount of capital raised dropped 46% compared with a year ago. The law firm also tracked the number of cross-

border IPO deals, where companies from one country chose to list in another, in addition to their home market. London attracted just one such dual-listing in the first half of 2019 — Egyptian petrochemicals group Carbon Holdings. Baker McKenzie described the dearth of cross-border listings as “a record low”. (FT, 2020)

Gareth McCartney, head of equity capital markets at UBS, the Swiss bank, said: “No doubt, Brexit uncertainty has put things on hold. London has dominated historically, but in the last couple of years we have seen a real repositioning towards Germany, Switzerland and the Nordics.”

Achintya Mangla, head of equity capital markets for Emea at JPMorgan, the US bank, agreed. “There are a lot of reasons to list in the UK. It has the halo of a deep investor base, great corporate governance structure, good liquidity post-IPO and an established market structure.” He added: “People talk about Brexit being a binary outcome, but no one really knows.” (Dow Jones, Financial News, 2019)

2.1 DEUTSCHE BÖRSE

In this subchapter we discuss main aspects up to date about Trends, Foreign issuers, Costs, Regulation, the company or potential investor should take a proper look at. Trends will be discussed in the fifth chapter in greater detail.

For many decades now, the financial center of Germany has been the western part of the country. Germany has eight stock exchanges. The Frankfurt Stock Exchange, “Frankfurter Wertpapierbörse” or FSE, run by Deutsche Börse AG is the most important, with further regional stock exchanges in places such as Berlin, Düsseldorf, and Munich. The number of participants today exceeds 1,000 companies, whose total capital is almost $ 2 trillion. The consideration of an IPO for a German private company and as an exit alternative for its shareholders can open a broad range of opportunities for the company and its investors. Regardless of whether aiming for an IPO in the U.S. or in Germany, the equity story of the IPO company is ultimately key for a successful listing. Further, the right timing and success of the IPO depends on the preparation of the IPO company and its shareholders. The preparation might start many months in advance by setting up the right financials and guiding the company towards the harbor of the IPO with advisers, auditors, company, and shareholders working hand-in-hand. (Bloomberg Law, Germany, 2019)

There has been a continuing trend in Germany with respect to the listing of companies after a spin-off or the offering of shares after a carve-out. The spin-off results in the listing of the spun- off company, with the new shares being allocated to the deposit accounts of the shareholders of the parent company without any investment decision. Recent examples of spin-offs are Uniper from E.ON and the carve-outs of Innogy from RWE, Bayer MaterialScience from Bayer and Sixt and Sixt Leasing Siltronic. (Lexology, 2019)

Another new development in Germany is that the Frankfurt Stock Exchange gives Chinese issuers the option to list D-Shares on the China Europe International Exchange AG D-Share Market (CEINEX D-Share Market) through an admission and trading of the D-Shares on the regulated market of the Frankfurt Stock Exchange (Prime Standard). China Europe International Exchange AG (CEINEX) is a joint venture formed by the Shanghai Stock Exchange, the Deutsche Börse AG and the China Financial Futures Exchange. (Lexology, 2019)

The issuers on the German stock exchanges are typically German companies, but there are also companies from other European countries. German companies typically list in Germany, particularly on the Prime Standard market of the Frankfurt Stock Exchange, this being a leading international stock exchange. In specific circumstances, such as having a peer group or shareholder base abroad, German companies may also list on non-German stock exchanges. Frequently, non-German companies (particularly from Europe) list on the Frankfurt Stock Exchange because of the liquid market and high-quality standards. (Lexology, 2019)

2.1.2 Foreign issuers, DB

The main attentiveness for foreign issuers coming to Germany is access to international high-quality investors, a competitive, regulatory environment, high visibility (indices), cost-efficient listing, high liquidity, legal transparency and a choice between different market segments. There are no special obligations for foreign issuers, but certain privileges may apply (such as the publication of an English-language prospectus). Also, certain foreign generally accepted accounting principles are admissible (e.g., from Canada, China, India, Japan, South Korea and the United States). Besides, the German regulator may grant extensions to applicable publication periods. Lastly, global depositary receipts can be admitted to listing on a German stock exchange.

As described earlier, the public offering of shares or the listing on the regulated market (or both) in Germany generally requires a prospectus to have been approved by BaFin as the competent authority in Germany. The Prospectus Directive provides, however, for the passporting of prospectuses within the EEA if such prospectus has been approved by a competent authority in one EEA state. Upon its passporting, the prospectus may be used for public offering and listing purposes in all other EEA countries without further examination (except for a German translation of the summary). (Lexology, 2019)

2.2 LONDON STOCK EXCHANGE

The following is a brief overall history of the LSE position. It further describes its current position in the European market.

In 2015, the World Bank ranked the UK as the sixth-best country globally for ease of doing business, ahead of every other EU member apart from Denmark. According to the 2015-16 Global Competitiveness Report, the UK sat in tenth place out of 140 countries to measure global competitiveness. (Kokotovic, 2018)
London became a central hub for reserves, especially for time deposits denominated in USD, and trading of cash-settled futures contracts on USD, namely Eurodollars. The “Euromarket” is a general expression for these types of deposits and trades and generally refers to markets on which banks deal in foreign currencies outside their home country.
The “euro” prefix has no bond with the currency or the euro area. It only symbolizes that these types of trades first appeared in Europe and specifically in London. (Deutsche Bank Research, 2018) The UK developed as an influential worldwide economic center already in the 1960s. Where the growth of the Euromarket was the main driving force behind this. As a result, London became the largest depository for USD outside the US and played a key role in Eurodollar trades. For instance, its expected point to London having an 80% Euromarket share in the mid-1970s via 243 subsidiaries of foreign banks. (Deutsche Bank Research, 2018) Euromarket activity in the UK remained moderately steady over three decades. With the evolvement of modern marketplaces, the Euromarket lost some value

in the 1990s. The UK's role as a financial hub profited significantly from financial market liberalization in the 1980s, especially the "Big Bang" in 1986. This removed several conditional practices in securities markets.

Directed by deregulation, stock trading in the UK moved from traditional face-to-face trading to a computerized marketplace. Fixed fees on stock trades were removed, and the door for more competition was opened. By ending the separation between stock traders and advisors, the Big Bang facilitated mergers and takeovers. By allowing foreign firms to own UK brokers, it opened the UK financial market to international banks. As a result, market liquidity surged. The number of shares traded on the London Stock Exchange (LSE) doubled in just a few years and grew persistently later. From 1987 to 2000, international equity turnover on the LSE expanded 61-fold.

Numerous factors have contributed over a long time to the UK and London's leading role in financial services. The Euromarket has lost weight, and Big Bang-type reforms nowadays have been executed by almost all modern economies. Hence, access to the single market and euro trading are key factors for the UK's financial sector. For instance, according to UK Treasury estimates, the EU makes up one-third of the UK's total financial, insurance, and pensions services exports. (Deutsche Bank research, 2018)

With Brexit, the UK’s financial services industry will presumably suffer from some loss of passporting rights and therefore restricted single market access, however not every stakeholder has a similar opinion. In this paper, the author continues to discover and elaborate on it in the following chapters. (Deutsche Bank research, 2018)

2.2.1 Foreign issuers, LSE

A foreign issuer looking to list shares in the UK will need to decide which market is most appropriate for it. Key to any decision will be the entry requirements of each market, ongoing post-admission obligations and the type of investor base the issuer is targeting. Admission to the Main Market may be seen as the best way to boost an issuer’s status and profile, whereas an issuer admitted to AIM will benefit from a lighter touch post-admission regime. For a Main Market admission, a foreign commercial company will have the choice between a premium listing, with its more stringent eligibility requirements, and a standard listing, as discussed in more detail in question 5. If inclusion in the FTSE UK Index Series is important, a premium listing will be necessary, alongside other requirements for inclusion. The requirements for a foreign issuer to admit shares to the Main Market in connection with an IPO are broadly the same as those that apply to a UK issuer. The exact nature of any differences will depend on whether the foreign issuer is incorporated in the EEA and the type of listing sought. A foreign issuer will need to produce a prospectus that will be vetted by the competent authority of its home member state. For an EEA issuer, the prospectus will be approved by the competent authority in the EEA state in which it has its registered office and 'passported' into the UK under the provisions of the FSMA and the Prospectus Rules. For a non-EEA issuer, it will be necessary to identify which EEA state is its home member state under the provisions of the Prospectus Directive. Where the UK is the home member state, the FCA will be responsible for reviewing and approving the draft prospectus. (Lexology, 2019)

The FCA will admit the shares of a non-EEA issuer that are not listed either in its country of incorporation or in the country in which a majority of its shares are held only if it is satisfied that the absence of the listing is not because of the need to protect investors. The foreign issuer's accounts must have been independently audited or reported on in accordance with international financial reporting standards (IFRS) or in accordance with national accounting standards if these have been declared equivalent to IFRS. A foreign issuer with a premium listing will be required to comply with the UKCGC (or explain any non-compliance) in the same way as a UK issuer with a premium listing and must also comply with similar provisions relating to pre-emption rights in connection with further issues of shares for cash. (Lexology, 2019)

There are a number of situations where a foreign issuer may offer shares in the UK without the need to publish a Prospectus Directive compliant prospectus, assuming no application is being made for admission to trading on a regulated market in the UK. These include offers made solely to qualified investors and offers made to fewer than 150 persons, other than qualified investors, per EEA state. Where a foreign issuer is relying on one or more exemptions from the requirement to produce a prospectus, it will still need to consider the financial promotion regime as outlined in question 7 in relation to any offering or marketing materials.(Lexology, 2019)

2.3 IPO

Cambridge Dictionary (n.d.) defines IPO as "the first sale of a company's shares to the public." Nasdaq (n.d.) furthers the definition by explaining that "Securities offered in an IPO are often, but not always, those of young, small companies seeking outside equity capital and a public market for their stock." For investors, buying stocks in an IPO could, in most cases, be seen as a high risk and high reward investment. This is because the company does not have many historical data to base an investment around. A well-known example of an IPO is Facebook's IPO in 2012, which also showcased to the world the risk associated with investing in IPOs (Pepitone, 2012).
Successful implementation of the country's investment mechanism can become the key to its economic growth and affect the results of all financial institutions. The IPO process is long and challenging, and the company must be certain that they are doing it right. According to Geddes (2003), the IPO process can be broken down into five major parts; Corporate issues, offer structure, regulation and documentation, marketing, pricing and allocation, and lastly, the aftermarket. The first thing that a company needs to do before going public is looking inwards and asking themselves if they are ready and if it is something beneficial. If yes, then next up on the list is some corporate housekeeping. Since the internal matters can be hard to figure out by the company itself, it might help involve a stockbroker or an investment bank since their expertise might boost the IPO speed and become more cost-efficient.

After the corporate issues, the company needs to figure out which stock exchange they want to be listed on. Most companies will be listed on their domestic stock exchange, selling to domestic investors. If the company is immense, then it might also sell in international markets. In some countries, there are junior and senior stock exchanges. If your company meets all the requirements for being on the senior stock exchange, that will be chosen. Only younger, less well-established companies are listed on the junior stock exchange since the requirements are lower (Geddes, 2003). It is important to consider the listing requirements and the number of related firms, liquidity and future financing, different fees, and continuing requirements. The number of related firms can speed up the IPO process if there are already several established companies in the same category,

which gives investors familiarity with that market segment, giving more accurate valuations. If the company is creating a new sector, the investors will be less willing to pay full price for the shares because of the risk tied to it.
The company can also decide to be listed in multiple markets at the same time. This is usually done when a company tries to raise more capital than the domestic market can handle. It can choose to create a public offering, where the shares are open for everyone, or a private offering, where only selected institutions can contribute. Obviously, when going to multiple markets, the marketing of the issues must be broadened. For this, tranches are created, which simply is a distinctive offering for one or a group of countries. This is only performed if the expected demand justifies the extra costs. There is much documentation that needs to be produced during the IPO. The primary document to be drafted in the listing particulars. According to Taulli (2012), the listing particular contains the prospectus, which is the main document given to investors, which shall contain all the information an investor needs to decide (except a specific share price). First, a preliminary prospectus is created while the company is still doing book-building and figuring out the number of shares being issued and its price, but the final prospectus will contain that detail. During this time, lawyers and investment bankers conduct a so-called due diligence investigation. Due diligence is the process when the issuer's commercial, financial, and legal status and the condition is checked to be correct. Any findings made here must be disclosed in the prospectus. The prospectus is one of the most important documents since it serves two roles: first and foremost, it is a legal requirement since it contains comprehensive information about the company, making an educated decision. Secondly, it works as a marketing instrument. Both of these must be in balance. If it is too much marketing, the issuer might get sued for misleading their investors, too much legalese, and the potential investors might not be interested. (Espinasse, 2011) In case of only a private placement, investors will receive an offering memorandum. This disclosure paper has similar contents to the prospectus but is usually slightly shorter since there are no tight legal conditions for private placements as in public offerings.

Marketing activities are taking place while the documentation is being arranged. It is not exactly the overall marketing activities a company conducts in the market, but a set of activities targeted at potential investors to convince them that it is a good investment opportunity. The lead underwriter bank carries out marketing activities to familiarize potential investors with the company and ultimately convince them that this is an attractive investment opportunity. The lead underwriter might begin preparing and creating their marketing program for several months in advance. Pre-marketing is mostly for making investors familiar with the company and the market. The formal marketing period can be anywhere between five days to six weeks, depending on the offering size. Most reputably, during the formal marketing period, the preliminary prospectus is published, and the roadshow initiates (Geddes, 2003). A roadshow is when the company management delivers presentations to interested investors. During the last weeks of marketing, book-building begins. This is when the lead underwriter tries to evaluate the shares' demand and set the price, respectively. (Geddes, 2003)

2.4 BREXIT

The more detailed influence of Brexit on the activities of the London Stock Exchange and Deutsche Börse will be carried out in the following chapters of this thesis.

" What has been largely ignored are the 12.9 million who did not vote". (LSE Brexit, 2016)

"Brexit is not the will of the British people - It never has been." (LSE Brexit, 2016)

The referendum vote for Brexit was clear: the electorate was 46,501,241, Leave was 17,410,742 and Remain was 16,141,241. The UK public actually did not, does not and will not want a Brexit in the foreseeable future. Adrian Low makes this argument by analysing the post-referendum polls and demographic trends. (LSE Brexit, 2016)
"U.K. Leaves E.U., Embarking On an Uncertain Future. Britain formally withdrew from the European Union at 11 p.m. on Friday, after nearly half a century of membership." January 31,2020. (NY Times, 2020) On June 23rd, 2016, 52% of UK voters opted to put their country on the path to leave the European Union by March 29, 2019. This result was a surprise to many and went against the advice of the vast majority of economic experts and business leaders. The Brexit process began with the United Kingdom (UK) voting to leave the European Union (EU) in a 2016 referendum. Since then, there has been heated debate from both the remain and leave camps about the best scenario for Britain moving

forwards. With speculation playing a part in almost every claim for or against the EU, it's sometimes difficult to distinguish between legitimate risks and doom-mongering. As the process of negotiating a withdrawal agreement nears its end, there is still uncertainty surrounding the UK's exit from the EU, and the debate on the pros and cons of Brexit continues. (IG, 2017)

As discussed by Christian Ketels and Michael Porter in HBS, the problems facing the UK were not caused by the EU, but rest squarely at home. A 'good Brexit deal', at its best, will not eliminate these problems. The real issue is a pattern of persistent weaknesses in UK competitiveness, and its consequences for citizens. These problems were blamed on Europe, but EU membership never really hindered efforts to address them. And it is clear that leaving the EU will erode UK competitiveness further. The lack of effective action on upgrading UK's competitiveness has been a fundamental failure of the UK government. Europe became a scapegoat for issues that were squarely British, and the failure of UK policies. (Harvard BS, 2018) While much of the attention so far has been on the deal between the EU and UK, there is a pressing need for the UK to agree on and implement a clear strategy that has been lacking. Entire campaign suffered from an almost total absence of an understanding of what the alternative would be, a catastrophic mistake. (House of Commons Treasury Committee, 2016) In this context, the campaign on whether or not the UK should stay within the European Union was a surreal discussion that failed to confront the real issues and the root causes of citizen discontent. Instead, the Brexit campaign was largely fought on an exaggerated debate on national sovereignty as well as on the short-term transactional costs and benefits of EU membership. (Webb, Keep, 2016-2020) EU membership was a major plus in terms of maintaining an open market, limiting market power and government intervention, raising the UK's attractiveness for businesses. (Mulabdic, Alen, 2017)

In the Empirical analysis of the impact of Brexit, Petar and Filip have strong evidence to predict, that "Brexitization" would affect the UK economy, its stock exchange, its currency and real estate market, respectively, among other things. The UK is expected to be more affected than the EU as a whole, and any of its national economies. (Kurecic, Kokotovic, 2018). EU membership has enhanced competitive dynamics, with positive implications for UK productivity. (Campos, Coricelli, 2017) Outside of the EU the UK government will have more freedom to give subsidies and firm-specific tax relief to companies, something that could in turn increase the demand for such interventions. (Crafts, 2017) Complying with EU rules creates costs. But a closer look at the data reveals that these costs depend largely on how EU members implement them: On the World Bank's Doing Business assessment, for example, the same EU regulation allows Denmark to rank 3rd globally while Malta ranks 76th.(World Bank, 2016) At first impression outside of the EU the UK will have more freedom to set its own regulations. But given the UK's beneficial position today – its ranks 7th globally on the Doing Business index - there is no evidence that significant cost benefits are available. So far businesses are more concerned by the regulatory uncertainty that threatens to rein following Brexit. Secondly, outside of the EU the UK will have more freedom to remove remaining restrictions to imports, but it will see new barriers emerge to serve the Common Market. And it will face difficulties in securing favorable market access to other markets negotiating on its own. UK had major skill shortages, especially in so-called 'middle skills'. (UKCES, 2014) EU membership benefited all the UK's key clusters, opening up a large, integrated market, and improving the ability to attract additional firms, skills, and investments to Britain. A final major topic in the political debate was the size of net transfers the UK has made to the EU budget. The absolute size of the UKs net contribution to the EU budget is tiny compared to the UK's overall budget. While the exact amount is disputed, on a net basis it is about EUR 10-11 bn per year, including customs duties. This is equivalent to roughly 1.1% of the UK government's total annual spending. (Deutsche Bank research). This problem was observed by Inglehart who believes that the key factor behind such decisions is a strong cultural backlash from demographics that fear progressive values, rather than economic reasons. The rationale behind such decisions is difficult to understand from an economic viewpoint, as the perceived regaining of sovereignty inflicted massive losses on the economy of the UK and on global equity markets, which lost more than two trillion US Dollars in value on June 24, 2016, upon news of the Brexit referendum result (Kurecic, Kokotovic, 2018) The real issue, was the UK's own fiscal policy and its impact on funding UK public services. There is some evidence that the exposure to the effects of fiscal austerity was indeed a key driver of the decision to vote for Brexit. (Becker, Fetzer, 2017).

A lower exchange rate and accommodating macroeconomic policies support current growth but are not a foundation for higher prosperity in the future. Devaluation of the British Pound has made the UK more attractive from a cost perspective. However, lower taxes and a lower exchange rate do not enhance competitiveness, productivity, or prosperity for citizens. They benefit private sector profitability, but at the expense of UK citizens. (CBI, 2016) (Blanchard, Giavazzi, 2017) The Brexit shock also sharply and immediately reflected on the exchange rate of the GBP. A huge intraday drop of the GBP against the USD was observed on 24 June 2016, in the wake of Britain’s voting to leave the EU. The GBP lost as much as 11.1% (Kurecic, Kokotovic, 2018)

The future success of UK will depend on how necessary implementation of policy making procedure will support recommendations:

Experts at Harvard have their recommendations centered on five major priorities: First, the UK needs a new value proposition to replace an implicit value proposition that drew heavily on EU membership. Second, the UK must make the long overdue shift from a purely horizontal economic development approach to a cluster-based model. Third, in parallel, the UK must shift from a highly centralized, top down strategy to a more decentralized regional model. Regions are the most important unit of competitiveness today, not the nation as a whole. Fourth, the UK must articulate a strategic agenda that enables inclusive growth, addressing the tensions in UK society that ultimately fueled the Brexit vote. And finally, the UK must take forceful steps to minimize the costs of leaving the EU. (Ketels, Porter, 2018)

There is now a transition period until the end of 2020 while the UK and EU negotiate additional arrangements. The current rules on trade, travel, and business for the UK and EU will continue to apply during the transition period. New rules will take effect on 1 January 2021. (GOV.UK, 2020) The fact that Brexit means the EU will lose the financial hub that is London is quite often forgotten. Thereby ignoring the fact that no matter how quickly cities like Frankfurt and Paris woo UK banks and financial services looking for a home in Europe, they will struggle to catch up with London. (Warner, 2019)

2.5 PASSPORTING

Passporting rights refer to the right of a firm registered in the European Economic Area to do business in any other EEA economy without the need for further authorization in each country. The EU passporting system for banks and financial services companies enables firms that are authorised in any EU or EEA state to trade freely in any other with minimal additional authorisation. These passports are the foundation of the EU single market for financial services. (BBA, 2020) Once the UK has left the EU and the EEA it would become a “third country” and these limited regimes may in principle be available.

There were 5,476 UK-registered financial entities – banks, insurers, asset managers and payment firms – which used passporting to do business in the EU-27 in 2016, according to the Financial Conduct Authority FCA.

Meanwhile, 8,008 financial entities were registered in the EU-27 and did business in the UK via their passporting rights. In both cases, entities can engage in different services in the single market and possess more than one passport. This makes specific passports in use particularly relevant. (Europarl, 2017)

All member states of the European Union are part of the EU single market; the single economic area created by the integration of the markets of the EU states. Goods circulate freely in this market, and businesses established inside it have wide-ranging rights to sell products and services in any part of it. Over time, the EU states have harmonised their rules for many products and services in order to facilitate this trade and to guarantee common standards across the EU. For over twenty years the scope of the EU single market has increasingly extended into trade in financial services. The foundation of this has been the development of a single EU rulebook for financial services and the increasing harmonisation of standards of financial regulation and supervision across the EU. Once a bank or financial services firm is established and authorised in one EU country, it can apply for the right to provide certain defined services throughout the EU, or to open branches in other countries across the EU, with relatively few additional authorisation requirements. This pan-EU authorisation is its financial services ‘passport’. (Deutsche bank research, 2018)

These passports are not available to ‘third country’ firms, i.e. firms incorporated outside the EU. Non-EU firms face significant regulatory barriers to providing cross-border banking and investment services to customers in many EU Member States. In many Member States it is either not possible or practical for a non-EU firm to obtain a licence to provide cross-border banking or investment services to local customers. (Deutsche bank research, 2018)

UK-based banks use their Markets in Financial Instruments Directive (MiFID) passports to help clients buy and sell shares, bonds or other financial instruments and trade on exchanges and trading venues around the EU. (Deutsche bank research, 2018)

DEUTSCHE BÖRSE on EU regulatory since 2018:
“An efficient future relationship between the EU and UK is desirable in order to keep UK as a partner for a prospective and competitive Europe. At the same time, it is important for Europe to remain in competition with the US and Asia on an equal footing. To achieve this, the right regulatory framework is key. Unfortunately, uncertainty about the final arrangements between the EU and the UK still remains.

There is continued uncertainty surrounding the future of financial passporting when the UK ceases to be a member of the European Union. In view of the political agreement on transitional arrangements and recent FCA statements it is expected that firms will continue to benefit from passporting between the UK and the EU throughout the transitional period, if approved. If the UK leaves the single market it is not clear whether a new arrangement on financial services will be put in place or whether the UK market will have to rely on the power of the European Commission to approve a non-EEA prospectus if it meets international standards considered to be equivalent to EU requirements. However, this is less likely to impact institutional offerings into the EU where prospectus exemptions are available.”

However, we could see from LSE Passporting Comment on Brexit:
”On 21 November 2018, the UK Government confirmed that, in the event of a Hard Brexit, prospectuses approved by an EEA competent authority that have not been pass-

ported into the UK before the date of exit will no longer automatically benefit from passporting rights into the UK markets. A company wishing to admit to both an EEA Regulated Market and London Stock Exchange's Main Market would therefore need to ensure that a Prospectus is approved by the FCA and separately by any EEA competent authority, unless the EU and UK take equivalence decisions with respect to prospectuses approved by their respective competent authorities. The content requirements for a Prospectus in the UK would be the same as those required in the EU.

With regard to issuers admitted or considering admission to AIM, we expect the impact of a Hard Brexit to be minimal as issuers usually structure transactions within the parameters of the Prospectus exemptions.

With respect to issuers listing solely on London Stock Exchange, we anticipate minimal impact. For example, of the 210 equity IPOs on the London Stock Exchange since 2017, none used an outbound EU equity prospectus passport from the UK." (LSE website)

Does in reality passporting challenges and uncertainty around Brexit affect decision about listing on LSE?

LSE continues telling us that:

"Issuers must ensure that they assess whether an offer of securities or admission of shares to trading could trigger the requirement for a Prospectus under both the UK and the EU Prospectus Regimes or qualifies for a relevant exemption under both regimes. For example, issuers who also have a listing on an EU regulated market alongside their listing in the UK and are intending to increase their share capital by more than 20% will be required to produce a prospectus compliant with the EU Prospectus Regulation and also the UK Prospectus Regulation in the event of a Hard Brexit. Issuers are unlikely to be able to rely on documents approved by the UK authorities for the purposes of compliance with the EU Prospectus Regulation. It is also our working assumption that documents approved by EU authorities will not be accepted for admission to the regulated markets in the UK." (LSE, 2020)

Overall, the UK therefore seems particularly vulnerable to a Brexit scenario which would impact upon UK-based firms' ability to provide financial services to EU customers. The EU, in turn, has much less to lose under those circumstances, but may be keener to maintain an open investment climate in manufacturing, for instance.

3 RESEARCH METHODOLOGY

3.1 Qualitative research

This study aims to produce an answer to the following research question:

Does Brexit cause companies to move their IPOs from London to Frankfurt?

This study will also investigate the challenges that decision-makers face and explore the opinions of professionals, including investors, in times of uncertainty caused by Brexit.

As this research deals with human factor reality, for instance, the selection and cognitive bias, investigation on the reasons behind decision making stay at a high priority This qualitative study adds scientific value as it brings together experts from researched stock exchanges, which limits the research bias. Validity tests and intensive involvement allow the author to conduct interviews directly with these platforms' executive conciliators at both the Frankfurt and London Stock exchanges.

The author chose to do qualitative research due to the human decision-making factor, as IPOs and Brexit are emotionally charged events. Qualitative research is often associated with the use of field notes, stories, conversations, recordings, interviews, life experiences, and similar sources of data (Guest, 2013). Qualitative research allows capturing participants` own beliefs, judgments, and reflections. It is essential to test claims at the real data. Interviews are a common source of qualitative data because they are an effective means to learn from participants about their perceptions of and experiences with a study's topic (Sage Encyclopedia). The researcher has more control over the topics of the interview in the semi-structured method. Interviews suit well to understand interviewees' opinions better and explore their attitudes, beliefs, and experienced view. (Sage Encyclopedia).

The methods employed were considered suitable to answer this study's core research question. To achieve a deeper investigation, the interviews were conducted with non-political officials. A discussion follows an interview guide but is considered flexible as it allows us to change the order of the questions and add follow up questions when necessitated. To make the interview more natural the questions were not presented in the same order to all the interviewees, but all the subjects were covered with each respondent, as questions may not follow on precisely in the way outlined on the schedule due to the flexible nature of the chosen approach. (Bryman, 2008) Semi-structured interviews are those in-depth interviews where the respondents have to answer preset open-ended questions, with a focus on specific situations, in a particular case it is about IPO decision making in the context of Brexit. It is also important to add, that interviewees and interviewer do not have any close relationship, thus interpersonal distraction is minimized. The goal is to see the perspective of the interviewee and to understand why they have exactly this opinion. (Sage, 2004)

3.2 Sample and data collection

Interviews are a major category of techniques for collecting data through questioning and are acknowledged as being some of the most effective ways of collecting data in the social sciences (Lancaster, 2008).

The data used in this study is drawn from industry experts. The author understands an expert as a person who possesses: deep knowledge, professional experience, competence in a certain field of activity, the ability to make management decisions, insider information about decision-making processes, development and application of strategies, policies in the organization. The population for this study comprised directors, investors, leaders, and heads of departments of the researched stock exchanges. In all, a total of six (6) experts working with IPOs, served as the total number of respondents and interviewees for this study. There were three different groups of interviewed people: one (1) current employee at LSE, two (2) current employees at DB, one (1) venture capital investor based in London, and two (2) third party IPO leaders. Neither age, name nor gender of the interviewees is revealed as it grants anonymity and confidentiality to the respondents.
The instruments of data gathering employed for this study are in-depth face-to-face interviews. Due to foreign location issues, as well as the COVID-19 outbreak, interviews were done through Skype for Business, WhatsApp, Phone, and the Oracle platform. Overall, six (6) individuals were interviewed in a nice, relaxed setting during the April-October of 2020. The nature and possible questions of the interview were told to the respondents in advance and the purpose of the study was explained in detail. The interviews lasted between 35 and 60 minutes.

The full consent to record as well as publish the comments made by each interviewee was acquired, the agreement is reached and supported by both parties verbally.

Each interview was audio-recorded to ensure that full transcripts are then available for analysis. This research is written in English and the interviews were conducted in the English language too. The Mother tongue of several interviewees is however German or French. Each interview was then fully transcribed, all content is accessible by the author and thesis supervisor only. The interviewees were informed that their interviews are recorded and transcribed afterward. A copy of the final research is requested by interview participants with a declared interest in analyzing the findings and opinions of their indirect colleagues or competitors.

In the course of conducting this research, a purposive sampling technique was used to select the six (6) interviewees who constituted market experts out of the direct executive experts, based on their availability and willingness to be part of the research. The objective was to gather authoritative information from capital market stakeholders themselves about the factors that influenced decisions on IPO in the favor of choice between the LSE and DB as a stock exchange platform.

3.3 Data analysis strategy

The analysis has been created right after the collection of the data. With this analysis, the author presents to the reader what is discovered. Qualitative data could be analyzed in multiple approaches. The author transcribed interview recordings after conducting meetings with interviewees. The main patterns were later recognized. The main points of interest were identified and grouped into relevant categories. The analysis was conducted in MAXQDA and Excel software.

Data accumulated from the interviews was studied using the constant comparative technique of analysis. It is used to show the connection between Brexit and its influence on the determination of the corporations’ choices which conduct IPOs. Especially as it investigates the selection between stock exchanges LSE and DB as their platform. The primary analysis of the transcripts was conducted by color-coding the key themes and forming a mind map with post-its and in Excel. The relationship between the various themes was studied. The open-ended questions were designed to acquire an in-depth understanding of the personal experiences and perspectives of the respondents. The semi-structured nature of interviews gave noteworthy flexibility to the cooperators to determine the extent and direction of the conversation for the provided questions. (Sage, 2008)

3.4 Trustworthiness of the study

To avoid bias and reach a well independent answer to the research question the triangulation technique was applied by the author. To have the results at a greater advance of confidence, the concept has been applied through conducting interviews in diversified independent entities. To run a successful trustworthiness test, the ease to have only one side opinion represented has been avoided. Criteria suggested by Lincoln and Guba such as fairness, confirmability, ontological, educative, catalytic authenticity are well-considered and passed. (Bryman, p. 393)

The qualitative research method aims to examine the opinions and thoughts of the interviewees on a deeper level. The author does not make any generalized conclusions based on the findings but rather inspects the experienced points of view of the interviewees. He aims to understand respondents' backgrounds as well as their supported by evidence conclusions and prognoses. Transparency of the research is provided and explained in detail. The size of the sample that can support convincing conclusions is likely to vary somewhat from situation to situation in purposive sampling terms (Bryman, p. 468).

There is always a risk that the respondents may give answers as they feel they are assumed to answer. There is always a possibility that the way the author set the questions or even a minor change in the tone of his voice may have had an impact on how the experts answered. Respondents might take a defensive position if the question is considered as quite sensitive to their personal, not professional worldview, but emotional. The findings and conclusion are a significant part of this paper due to novelty, sensitivity, and simple lack of independent research on such matters. Plausibility is advocated by the credibility of sources of the data as well as the level of diversification (Bryman, 2012). Natalita adds that the investigator must ensure that both the conduct and the evaluation of the research are reliable and trustworthy, however not limited to the experiences of the participants, but also concerning the more ubiquitous political and civilian implications of the research (Nalita James, SAGE, 2008).

The number of interviews of this research is limited to five (5) interviews but six (6) interviewees. This number of interviews meets the sampling criteria the researcher and the supervisor have determined.

In general, the author of this paper found it a bit challenging to set himself in the role of a researcher in the very beginning. To conduct the professional research author had to advance in the subjects of IPO and Brexit. Because the author studied in Germany, he had some expectations about subjects that might come along in the interviews concurrently with Brexit. The author naturally tried to avoid revealing his own and previously interviewed interviewees' thoughts or concepts in setting the questions or in the interview situation itself. There is, however, always a possibility that interviewees may deliver answers that they feel are awaited from them due to the top confidentiality of their work-related activity. In addition to it, stock markets are extremely vulnerable and quickly respond to the news.

4 RESULTS

In this chapter, the findings of the empirical study derived from the thematic analysis are presented. The themes that were identified in the analysis of the transcribed interview data are: home listing bias, Brexit/IPO uncertainty, key pre-IPO criteria (compass), investment culture, and knowledge base.

4.1 Important findings

During the interview, the respondents shared their expert opinion on the situation around IPO trends in London and Frankfurt within Brexit context. All the respondents stated various thought on the researched subject. The interviewees indicated clearly and deliberately the possible outcome for IPO market of such a regulatory change as Brexit since the vote in 2016. The main important factors to take into consideration were thematically bundled together such as Brexit/IPO uncertainty (1) (Brexit impact, Passporting, Trend evidence) and key pre-IPO criteria (2) (Valuation, Regulatory, Strategy, Preferences). All of the respondents mentioned also important independent factors such as home listing bias (3), investment culture (4) and knowledge base (5). In a nutshell there are several key findings which could help to shed more light on the research question's answer.

Key learnings are extracted from the interviews and presented below.

Interviewee 1:

1)The uncertainty to BREXIT is a negative factor for every market; 2)DB Scale is more regulated than LSE AIM market; 3) Companies tend to do IPO at home 4)LSE has always been the special platform which attracted international companies; 5)investor base in London is bigger, culture is more open minded towards investing; 6)Brexit is a regulatory framework, will not affect the roadshows and investor base in London;

Interviewee 2:

1)Brexit is structural thing for an IPO market, has no major influence on the IPO itself; 2)Companies tend to do IPO at home market; 3)London has more investors, easier access to liquidity and more open minded in terms of investing;

Interviewee 3:

1)London remains undisputed financial, capital international hub, like New York or Hong Kong, even after Brexit; 2) Brexit is a regulatory thing, not much to worry about for IPOs. It is only internal EU problem; 3) Frankfurt is more for local, German companies, London is international oriented.

Interviewee 4:

1)Brexit is not a disaster but only a regulation, results in additional income for lawyers; 2)The main challenge for a company to find a right investor and underwriter bank, when going public (size, location, dedication, long term orientation and aggressive trading to balance the market); 3)London is a knowledge/capital markets hub with a direct connection to the USA, not possible to decentralize such a mighty power in financial industry;

Interviewee 5:

1)London is not that strong and unique as 10 years ago; 2)Uncertainty levels are big, regulatory framework is unknown, hard to predict now; 3)Germany is more strict in compliance than the UK; 4)Investors in the UK are more open minded and forward looking, German investors are conservative.

4.2 Brexit/IPO uncertainty

The interview questions were discussed with the interview participants involved questions related to the impact of Brexit on IPO trends through the shift between two stock exchanges LSE and DB. As the researcher is interested in how it affects the decision making due to uncertainty around the outcome of political debate since the announcement in 2016 till nowadays. To conduct a proper research with a trustworthy result the author had to find a way to evaluate the possible consequences of Brexit. There has been tremendous amount of daily news how Brexit will hurt the economy of the EU and how much it would cost to the financial industry. Surrounded by the speculative noise author had to find the experts who could shed a light on this matter, thus provide an independent answer from qualified IPO industry professionals. The high level of uncertainty around upcoming Brexit regulations continuously makes it problematic to assess the situation and subscribe a precise universal remedy. There are still however more questions than answers:

"Brexit brought a great level of uncertainty for companies working in the UK, the way how they will be able to run their businesses in the future." (Interview 5)

"As investors, we have to help companies to adapt and bridge the Brexit gap. Will there be regulatory issues we have not foreseen yet…? There could be another concern. The exchange of data, the fluidity of payments, potential tax issues etc... We cannot predict it. What type of Brexit will take place? We don't know what the next environment will look like. It is not easy to say how to behave in the future. But we have done our homework. The investors will be able to invest in the UK and Europe. I think it is more how we help our companies to adapt to the new environment..." (Interview 5)

"it's more to see what will happen, we don't know what exactly the situation will be, we don't want to do the enormous amount of work, as it is potentially a huge amount

of useless work. As we don't know exactly what the situation will be. But we are very attentive to how things are going to pan out. (Interview 5)

"With Brexit we have to analyze the new rules of the UK to enter this market, prospectus rules. We expect different prospectus rules when you compare the EU, not just Frankfurt Stock Exchange, but all EU, we have a harmonize prospectus framework". (Interview 3)

"Prospectus regime, the new one, the other things are ongoing obligations, we have these reporting's, ESG, CSR, quarter reporting, IFRS etc. Does the UK remain with these requirements? Do they establish new requirements? This has a lot to do with Brexit". (Interview 3)

"Speculation is because of the uncertainty about the rules" (Interview 3)

"I believe some of these houses have just made the minimum homework saying, ok, if Brexit comes into effect, we have to have a certain set up in continental Europe, either location in Frankfurt, but there is evidence that teams have not moved. (Interview 4)

"I believe the big interest, big American investment banks to move away from London is rather limited, they try to avoid this scenario until it's really necessary." (Interview 4)

"The current uncertainty in the market means no appetite for investors to support companies or to invest in companies. It is the main reason why capital markets and IPOs are not performing quite well. Normally it works quite well, the investors invest." (Interview 2)

However, the advantage of making the decisions independently and quickly arises together with the UK being not a part of EU. One expert brought quite interesting positive factor of Brexit for IPO trends in the UK.

"But here is another argument, when you are a part of the EU, a part of let's say where 20 countries, and 10 stock exchanges and regulators and you have to agree on one rule change. I can tell you it takes time. If you are in the UK, and you need to change the rule, they can do it much faster, for London it might be a speedball, while the EU can be the sinker." (Interview 3)

Great level of uncertainty specifically regulatory part for IPO stakeholders in the face of investors, investment banks, traders, entrepreneurs makes estimations rather difficult to prognose. The future around post Brexit capital markets is at some extend blurred due to the lack of new regulation reforms both in the EU and the UK. Closer to the second quarter of 2021 it would be more clear what kind of framework will be employed. Nevertheless, expert says that hard Brexit would hit the UK ecosystem:

> *"in the worst-case scenario, it might result in the UK isolating itself from the rest of Europe. Having much less fluidity, movement of data and talent between the EU and the UK. I think London should be integrated as much as possible into the EU ecosystem. London is too small on its own to be relevant. It is too mixed with the EU ecosystem to go away. (Interview 5)*

4.2.1 Brexit impact

Consequences for the UK from leaving the EU are quite complex. Not only for the UK but for the EU as well. Reduced integration is likely to bring high costs to the economies of both counterparts. It is expected that the UK will face problems like less skilled immigration, lower foreign direct investments, complex regulation reforms and reduced trade. However, Brexit impact on IPO trends is not quite pessimistic and it is argued by interviewees below:

> *"Who is impacted by Brexit? Only European countries. Not Africa, not Asia, not Chinese, not Russia, they are not affected by this! How many EU continental companies moved to the UK, not much, you will see it." (Interview 3)*

> *"Only EU companies will be affected. But for Indians, Chinese, Russians, they don't care about Brexit. We speak only about 10% of potential for Deutsche Börse, that's all." (Interview 3)*

> *"I believe overall, for me, Brexit is more the noise than real action." (Interview 4)*

> *"I don't share this opinion about London losing its share of competence; I think it is more media talking than what banks really do" (Interview 4)*

An example of UBS is used by one of respondents to show the possibility of having a HQ outside of a home country:

“I believe in not the really hard Brexit. The government will keep the business running. In the end, investors don't care where to book. But look at the example at UBS, who is Swizz bank, and Switzerland is not a part of the EU. They are located in Frankfurt, and their European business is outside Switzerland. “(Interview 4)

Evidence of concern about less skilled immigration and its scale of importance is expressed by the respondent:

“First, is the ability to bring talents to the UK in the future. Many startups in the UK are run by foreigners. If you look at the arena of startup environments in the UK, more than the ⅓, 30-40% founders are non-Brits and 60% of engineering teams, in the tech space in the UK are non-Brits. What it means, all those companies, British and non-British, rely heavily on people from Europe, to do the work. The status of those people have become uncertain, can they stay here or should they leave? Can they hire people in the Brexit scenario? What Brexit scenario will come? It stays unclear. I think what is done, several companies have decided they should hedge the bets and they hire more people remotely, even their headquarters in London, they hire people in Poland, Nordics, Germany etc. This was a very important change.” (Interview 5)

Investors are preparing for the different scenarios. It is still quite unclear what exactly will change and how investors supposed to work in the unpredicted framework. Nevertheless, there are several things have been done as a homework by the venture capital investors, the main preoccupation is explained by the investor, based in London:

“in the case of Hard Brexit, to make sure we can invest across Europe the same way we have been doing. First preoccupation, can we run our company the same way as before and the answer is yes. There will be question marks about should we have more people on the ground on continental Europe, right now and in the future. We don't have an office outside London. Maybe in the future, we will have to have one.” (Interview 5)

4.2.2 Passporting

It is predicted that the financial sector of the UK will suffer the most as a result of Britain's exit from the EU. One of the main advantages of the financial sector inside the European Union - the so-called "passporting rights".

> *"The passporting is not available for London, due to the UK not a part of the EU and London being treated as a third-party country." (Interview 3)*

> *"…no passporting rights for the prospectus or ETF listings, there will be no passporting rights for the distribution of the funds, as a UK fund you will not be automatically allowed to distribute it on the European market. Certain discussions are going on about share trading obligation, traders within the EU are only allowed to do the trading on EU stock exchanges, they will probably not be allowed anymore to trade on the LSE. So, this is the regulatory framework." (Interview 1)*

Passporting means that a financial institution located on the territory of one of the EU states can offer its products and services to all other members of the Union with practically no restrictions. Companies in the City of London have made extensive use of this rule and their financial expertise, so they have been quite successful in operations. Most likely, financial companies from London will no longer receive equal access to the EU market, and it will be more difficult for them to compete with representatives of other large financial centers in Europe - Berlin, Paris, Milan, Amsterdam, and Madrid. Thus, the UK's exit from the EU, especially in the absence of a deal, will negatively affect one of the most important engines of the British economy. The British financial sector contributes 12% of the country's GDP. In the absence of a Brexit deal, the industry could face the withdrawal of assets of global banks and investment companies worth more than $ 1 trillion, which is almost 10% of the revenues of the entire banking system of the country. Many UK-based financial institutions were reluctant to accept a possible deterioration in working conditions and decided to change the place of official registration. Uncertainties about leaving the EU may be enough for businesses to "wait and see" before embarking on major investment projects. The falling investment will reduce demand and lead to a limitation of economic growth. It should also be noted that Brexit will cause ripple effects in the global economy. In addition to it, developing and middle-income countries will be the least protected from the adverse effects of Brexit.

Passporting is one of several benefits of financial industry in the EU member states. What is quite interesting here, the experts argue against the theoretical framework. Theoretical approach is not matching with the practical evidence, which is clearly expressed by the experts in interview:

> *"Not many made use of the passporting rights. Because, in London you speak to qualified institutional buyers, for this reason you don't need the passporting. And then it will remain, you don't go to the UK to speak to retail investors, from the EU perspective you go to talk to the institutional investor, the buyer. Passporting was not necessary because of this reason. We see it in the statistics. But it is not really a disadvantage. In theory it is a disadvantage, but in practice not many made use of it." (Interview 3)*

Senior expert at Deutsche Börse suggests possible consequences for the trading in the post Brexit framework:

> *"the passporting regime for the prospectus. If you want to do the listing at LSE or Frankfurt, then both before Brexit were considered as regulated markets and requirements had been harmonized throughout the whole EU. It was a similar process on LSE, Frankfurt and Euronext. You need to draw up a prospectus if you want to do the listing on a regulated market, and to do a public offer of securities. Those are two reasons you need a prospectus for. So, after Brexit, you cannot anymore passport your prospectus throughout the EU as the UK is not part anymore of it. Depends on what will really happen at the end of 2020. There will not be a prospectus regime in the UK anymore. You need to fulfil the rules they will have in place afterwards. Maybe you will need a second prospectus, only for the UK and one for the EU. But when you have it for the EU you can passport it through all the member states. When you do a listing in Europe you can use a single prospectus in every EU member state. It becomes even more interesting when you have one prospectus on LSE, but you will need a second when you want to trade your shares/securities in the EU. This could lead companies to do it locally in the EU. But still, the biggest investor base is located in the UK. Thus, I think companies will do both, they will do a prospectus for the EU and UK. Because they want to attract investors. Companies need to approach both markets." (Interview 1)*

Post Brexit IPO environment could bring an extra cost for listing companies:

> *"It is more expensive to do the IPO than before Brexit, two markets. The worst-case scenario could appear, when the company says I don't do an IPO in the EU, I go to the USA or China, as I need only one prospectus to attract all the investors. The US market is harmonized, bigger and one regulatory framework." (Interview 1)*

> *"...In the end, you need to have a certain number of people in Frankfurt, outside of London. I believe the investment decision will be the same, if he will use the booking platform in some other places, not at least the IPO side affected. The asset management side is doing this. We don't even know who is trading our stocks, we have no insight at all. Most of the banks they have expert access guys, mostly sitting in London, New York" (Interview 4)*

The respondent provided the practical evidence that big houses do not seek yet the HQ on continental Europe. He claims that passporting is only a small issue and it will not require to have a full team located outside of London:

> *"None of JPMorgan or others was not really looking for senior guys to build huge operations. And a passporting question if more about how the mutual company fund can sell it in the UK or Germany. If a JPMorgan guy in London talks to a guy from Allianz in Munich, and he wants to buy our shares and they book it in Frankfurt, it's more about technical issues. So, I don't expect any big changes in this by Brexit." (Interview 4)*

4.2.3 Trend evidence

Interviewees were noticeably clear about why IPO trends were not affected much by Brexit implications. London compensate by the amount and access to liquidity, investor ecosystem, historical image, top level competence and presence of international investors. The experts advocate London as being an international player since several decades, where Frankfurt still used mostly for local listing purpose. Interviewees are sure about Brexit causing any negative affect on IPO and trend shifts. They provide several pieces of evidence to consider:

"when a company wants to do an IPO on the Frankfurt stock exchange, they do their first roadshow in London to attract investors. They have an auto/order book, they try to get as many quotes or offers into an auto/order book as possible, they do it in the UK. They start filling an order book first in the UK, and once they have enough investors from the UK, they come back to Germany and approach investors here in the EU." (Interview 1)

"2018- 2019. The situation with Brexit was not very different, we were having a very strong IPO market here in Germany, Frankfurt. From my point of view, the Brexit situation was not any special... that shows that there is not much uncertainty due to Brexit because there were discussions about Brexit in the past 3 years, and IPO trend was not changing, we had a lot of IPOs." (Interview 2)

"Frankfurt benefit from Brexit? I don't see that. Why, because we have never seen the UK companies coming to Frankfurt. You know, the Chinese companies moving to Frankfurt, due to fidelity. From a German entrepreneur perspective, I don't see any impact of Brexit with regards to IPO activities on Frankfurt SE. The image of Frankfurt or Amsterdam, you name it, is more for local listing, and not being an international Hub and Brexit wouldn't change it." (Interview 3)

"legal guys, who make everything problematic, they want their fees. Investment banks want their fees of course for all kinds of processes. Therefore, I am skeptical about Brexit that it will change much, they have concentrated knowledge in one place, one center of competence of investment banks, and you have a total settlement. In my understanding most of those banks will remain after Brexit implications will come into life, may be slight differences in terms of where trader office institutions will stay." (Interview 4)

"I also strongly believe that headquarters of, for example, Morgan Stanley, trading, managing, strategy and risk management teams will remain in London, even in the hard Brexit, they will find the way and solution to stay there. For example, my company would not care about it at all, we would simply try to find which bank would be the right for us." (Interview 4)

"I believe there is a trend to better sustainability, we continue, but I have not seen a big difference among international investors. Maybe the reason is not enough of analysts, or they may still rely on the work done by rating agencies, like Moody" (Interview 4)

"I don't think many EU companies will go public in the UK; it doesn't happen much." (Interview 5)

4.3 IPO compass

4.3.1 Valuation

All five respondents clearly stated the importance of valuation and right investors in pre-IPO process. A listing company tend to choose the best bid price for its shares, the highest valuation and suitable mix of investors, long term oriented and short sellers, means more aggressive traders. The experts are sure about London being the international hub in terms of concentration of investors, this is one of the main reasons behind "Road Shows" in London:

"you need to identify your investor, who will invest and buy the shares. What we currently see, and I think it should be the same, no matter what Stock exchange in the EU you will ask, we see that a lot of investors are based in the UK, mainly in London, big funds are in London, and headquarters, the investor scene has a very strong focus in London." (Interview 1)

"the toughest decision when you go to IPO, to place your shares with the right investors" (Interview 4)

"the first thing to think about - the worth of my company. What is the price? I have no idea. I am going to approach several investment banks and have conversations with them. And they could name their price range, this number is very crucial for the CEO" (Interview 1)

“I think you have to see what the capital structure is, what are your investors, the most important point, as your investors will advise you about the exit in general about exit options.” (Interview 2)

“you have to see what the price structure at the stock exchange is, does it fit into my individual criteria.” (Interview 2)

“Does Stock Exchange abroad support valuation consideration, do I get a higher valuation, or lower costs of capital. This has a lot to do with a pure listing on the stock exchange yes or no. Because you can assume when analysts and the betters on the stock exchange environment are known on the specifics of the sector, you can expect a fair valuation.” (Interview 3)

“With the time you need to be big enough. You need to be quite predictable in terms of your results and what you bring to the market. Investors do not like negative surprises. You have to be able to give predictable forecasts, you have to meet expectations. You have to be fairly predictable. You have to have strong leadership to handle investors, financial discipline, quick reports, perfect compliance over-regulation” (Interview 5)

4.3.2 Regulatory

Until now it remains unclear the future regarding regulation changes. Thus, respondents cannot tell exactly how costs and other things would change due to different prospectus rules that might be triggered. There are a lot of unanswered questions which simply require time to see what exactly will be changed by authorities. However, it is believed by experts that Brexit is a regulatory issue, and it will not affect much of IPO trends:

“in a nutshell, Brexit may be more of a structural thing for an IPO market.” (Interview 1)

“it will not change from one day to another only by changing the regulatory framework.” (Interview 2)

“Brexit is more a regulatory thing than anything else.” (Interview 3)

“here Brexit is coming in. What are the requirements to enter the market, prospectus, ongoing obligations, post IPO financial calendar, what are the better Stock Exchanges in terms of investor protection rule?” (Interview 3)

“The availability to raise funds, the availability to serve investors on the ongoing basis. The rules will really determine the attractivity of post Brexit…” (Interview 3)

“The placement strategy is the same. It doesn't matter, where you list in the EU, the banks do the same jobs, same processes, not substantial differences. And Brexit will not change this.” (Interview 3)

“Brexit, my feedback to you, it all depends on how they organize the rule in prospectus and ongoing obligations, and its triggered cost.” (Interview 3)

Brexit might harm both exchanges. In case of Britain it might be a precaution as companies would need to pay more for a dual listing and attractivity might shift towards other big hubs:

“I believe many European companies have withdrawn their dual listing EU and America. All the reporting requirements really, really many difficulties and you get more into trouble having different leading concepts” (Interview 4)

“The documentation challenge is not the challenge but if you want the very wide distribution in America, then it's costly and takes a lot of time, ongoing reporting obligations so that you comply with its legal system. I believe that companies doing that should be really rich. In case Britain is also not a part of EU, same scenario might occur...” (Interview 4)

Both respondents confirm the disadvantage in terms of the compliance regulation on Deutsche Börse is stricter than on the London Stock Exchange. It might be a demotivation for foreign companies when it comes to make a choice between DB and LSE:

“I think in general in Germany you have strict compliance rules and regulations etc... Companies are looking for flexibility, where you can easily do things… Where you have an over-regulated market, it might be ok for German companies, but it may not be attractive for companies from outside of Germany…” (Interview 5)

“it is a bit different on the AIM market (alternative investment market), the requirements to enter the Scale market are a bit higher than on the AIM market. In some parts, it's even higher than the regulated market. Because we wanted to have only companies with at least some criteria fulfilled to list in this market.” (Interview 2)

4.3.3 Strategy

When choosing a right exchange platform, it is important to consider the strategy of a business. A company could do a road show in the UK but decide to be listed in Germany, Poland or somewhere else. It is worth thinking rationally and take into account the location of your customers, investors, brand recognition and operations:

“I would say in terms of location it depends on where your main business is. If your company has a lot of business in the US, you want to go on the Nasdaq in the US or NSE. But if you have a strong HQ in one place you will like it in the UK or Italy you stay there.” (Interview 5)

“look at where your company is based, the question is where are your customers, clients of your business.” (Interview 2)

“if I do the business in Germany and my brand is recognized here by customers, it does not make sense to go to the States where no one knows me there.” (Interview 2)

“Zalando for example, IPO was here in Frankfurt, because I think it was very comfortable, my investors know me, know the brand.” (Interview 2)

“for the companies who have a big free flow, broadly distributed, and investor base is very international with a focus on the USA and UK. It is an economical aspect and its very strong aspect, and I think it will not change from one day to another only by changing the regulatory framework. It will be still required from the investment bankers to go on a roadshow to the UK and do a roadshow there to attract investors, to do an IPO in France, Germany, Poland or whatever.” (Interview 1)

“first argument, about strategy. If you don't have clients in the UK, no operations in the UK, no market increase, no visibility etc. it does not make sense for you to be present in the UK. Same goes with DB, if there is no need for Germany, as a country

in terms of operations and visibility. This is just to understand if the Stock Exchange supports my strategy." (Interview 3)

"you have an advisor at your bank. If you are a German company, you might talk first to JPMorgan in Frankfurt, they would develop a strategy for your company, which brings you a solid valuation, investors who are happy with the IPO and investors who have long term interest in your company." (Interview 4)

4.3.4 Preferences

Interviewees shared their views about strong image of London. The undisputed criteria for entrepreneurs choosing the stock exchange is a simple emotional thing. A common story about preferences is expressed clearly:

"Sometimes it's about the likes of the Stock Exchange. If you like to be with this market. It is not a rational argument. It's more an image, it's all an emotional thing. It's more about where, so to speak, you, as an entrepreneur lead your cow to do an IPO." (Interview 3)

"The image of these stock exchanges are different, I don't want to promote the London SE, Dennis, to make this sure, but you ask me about is there any change due to Brexit, I don't see any, as London is the international financial hub, international listing place." (Interview 3)

"reason for companies in the Middle East or Russia to come to UK The IMAGE OF LONDON. The only answer. We have the same rules, same trading systems, all well organized, only image and brand recognition. Stock Exchanges are national assets. This is true for NYSE, EURONEXT, London." (Interview 3)

"preference, brand, image. This is real, how and why entrepreneurs choose different Stock Exchanges when they consider a cross border listing." (Interview 3)

"It is more comfortable for companies to go to London." (Interview 2)

An investor from London is a bit skeptical about London's ability to keep its positions:

"I think originally the attractiveness was because due to investors when a lot of the investors were based in London. It became natural for companies to list in London. But I would say it has changed." (Interview 5)

Costs of listing confirmed not to be an important variable in trend shift:

"The cost of listing is not a crucial factor for companies doing an IPO. The main costs of going public are the costs of underwriting banks. I think they change 2% of the total fundraised capital. We are talking about millions and not $20-30 thousands of listing fees. A very small, very small sector in the overall picture." (Interview 1)

Quite interesting finding is that two of respondents had different opinions on importance of language parameter as apparently it plays an important role when choosing the suitable Stock Exchange:

"English is not a problem, language is not preventing or pushing IPOs, English and IFRS is the language of capital markets." (Interview 3)

"why companies from Saudi Arabia, Russia etc. choose to go to London and not Frankfurt?! "I believe it's the language, they used English. Also, normal banking partners, franchises they want their profits to be booked in London, where they get their bonus payments. I think London was always a place for large transactions. London is always sexier, and for example, London is always connected to the US market. I also believe companies from Saudi Arabia would not like to do the documentation in the German language or France in French." (Interview 4)

4.4 Home Listing Bias

The fact of home country listing trend is supported by all of the interviewees. It is explained and backed by several reasons why companies tend to list in their home countries:

"German companies typically and British tend to stay and list at home generally 90% in a statistical long-term view and evidence. 90% are going to complete in the home country, so if you are a German company, on DB. Same goes with the UK. If you are in an Easter EU company, 90% at home and 10% look for the right destination abroad. So in the case when you think the home market country listing is not beneficial and

you think about cross border listing, either Frankfurt or in London, there is in general no one universal answer which plays the best." (Interview 3)

"Frankfurt has basically close to 100% national listings, there were no international listings in the past year." (Interview 3)

"I would start from the assumption that most of the companies in the EU do their IPOs at home. It means a French company goes to Euronext and the German company will come to Frankfurt. There are however some exceptions regarding the biotech sector and some startups, they are doing IPOs on the US stock exchanges and again the reason is not the regulatory framework. They hope to reach high valuations if they do their listing in the US." (Interview 1)

"The real IPO process starts 1.5 years prior to the IPO. When a company has to do a transition, a switch. Then they consider M&A deals, equity deals and going public." (Interview 1)

"companies see their social responsibility in a way and they do a patriotic listing, in France its Airbus, in Germany its Allianz. Because in the end the possibility for investors to trade shares to buy the shares they will have the option one way or another. JPMorgan can buy shares of Allianz from DB or Airbus shares from Euronext. They have access to both exchanges, or they could gain access and trade through the daughter company in the UK or New York Stock Exchange. For all the big market participants there is no big deal. We have a home bias, the home market principal I would say." (Interview 1)

"the most important point is to understand that it is typically for a company to do an IPO in the country where you are based. This is typically in Europe. Also, in the years before Brexit, it was the same, and after the Brexit, the situation will be the same. Typically, if you are based in Germany you do your IPO in Germany, but you could choose where, in Dusseldorf, Frankfurt, Munich. If you are a big company, you do it in Frankfurt." (Interview 2)

"There are some sectors, which are a little bit special I would say, Life Science, the Euronext, Paris has a really strong profile for this sector. Maybe the company would

choose the NY stock exchange as it has a high reputation. All in all, I would say companies are doing IPOs in their home market." (Interview 2)

"Siemens is based here in Germany; their investors are here in Germany. Maybe it also works as a well-known brand, Siemens could go through LSE, and do an IPO or spin-off" (Interview 2)

"our portfolio company the Hut Group, and they went on LSE in the UK. It is based in Manchester, globally operated multi-millionaire company. The LSE was a natural place for them. The reality is whether you go to London, Paris, Frankfurt, the investors will invest, and those platforms are able to attract the investors. The investors who invested in HUT are from everywhere. All of those platforms are quite global." (Interview 5)

"I believe the trading location platform is at minor importance and is much more important to make connections to your company and find you the right investment bank. We have seen a lot of examples in Germany when German companies go to the German market, and listings in Frankfurt, which is not that important, the order book is not filled by German investors!" (Interview 4)

"Doesn't matter if those guys are from Paris, London or Frankfurt, we would not honestly care. We would just expect they know us. There is no difference between London or Frankfurt, but if they do not care about us, we would not work with them." (Interview 4)

"if you as a CEO and you would talk to a Goldman Sachs in London, and as a CEO of a German company I would love to be listed on the FSE for several reasons. All of us CEOs of a German companies want media to talk about us, not for financial performance, but you have to attract new employees, you have to have certain media news around you, I would always say it is better to have home media noise. One idea is maybe you go to the FSE simply because you are a German company, you go to the German SE or the same for a French company." (Interview 4)

"The German company would be always advised to use the German market BUT go abroad. Then you need again the intelligence, which again, mostly in London." (Interview 4)

“In the case of my company, 78% of investors are in the UK or America. We have no documentation in place which qualifies us to get access to all investors. There is a sufficient amount of interest. The best knowledge about our company at some investors, analysts in the USA.” (Interview 4)

At the time of conducting this research, the unprecedented pandemic catastrophe occurred in the world. The COVID pandemic makes several predictions less relevant and investors should act promptly. One of respondents in the UK tells about the decentralized trend, which might also affect shifts in IPOs in future:

“Companies will become more distributed than ever before, and what is ironical, the COVID pandemic is accelerating this process. People learn how to work remotely. People are distributed. The fact we are now talking, you are in Helsinki, me in London, it does not matter. Fact where the office is becoming less important. The extreme time differences off course matter. You cannot move to California or Japan. Besides this fact everything is perfect, and things are easier.” (Interview 5)

4.5 Investment culture

Interviewees revealed how the investment culture differs between London and Frankfurt. The most important factors are investment focus by industry, risk averse and compliance. Several respondents who represent both countries, commented on London versus German investing culture. They defended London as an international financial industry hub with a progressive and innovative investment approach. However, both sides defined German investors more as conservative and long term oriented who invests in bonds rather than in shares. London carries the weight of an international liquidity giant. There is also another prerequisite to road shows happening in London, and it is a private investor culture, followed by demand, as it mentioned by several IPO experts. In addition, in Germany it is almost impossible to attract investors if your business is not supporting a green policy. The interviewees stated the following:

“I would say the investors in the UK are more interested in tech, innovations more forward-looking than German counterparts. DB would work for a German company, but it is not something where French would go.” (Interview 5)

“Germany focuses more on compliance and minority shareholders rights; it is good but… I think German investors buy shares for dividends rather than an increase in the shares… I think it is conservatism, one way to put it.” (Interview 5)

“Some investors, in some areas like Great Britain, are more open-minded for those business models (oil, gas).” (Interview 2)

“In the UK I have seen investment conferences; you see there many private people who are interested to find a company to invest in.” (Interview 2)

“In London, there is a lot more capital from professional investors... The reason why it makes sense also for German companies to go to London to make a roadshow to meet the investors...whatever... because there are a lot of investors... I think this is the biggest difference” (Interview 2)

“Investor base in the UK was bigger than on the German market. We have a lack of equity culture, share culture. It is still difficult to convince German investors to invest in shares.” (Interview 1)

“Very often when only up to 20 - 30% demand comes from Germany investors. German guys are more long term oriented and less trading oriented. No hedge funds. German behavior is roughly the same.” (Interview 4)

“Because of the culture, the equity culture in Germany is not that strong. Investors in Germany tend to invest in bonds, they have a stronger focus on the bond market and not on the share market. So it's some kind of push, to invest in shares, and that push comes with first movers, and the first movers you will find in the UK market.” (Interview 1)

“Germany represents only a small part of 10-15% of the investors in big German companies” (Interview 1)

“It is a typical thing here in Germany, if you are Mittelstendler, so you have your bank, you have your loan from Bank, and a lot of them don't seek an IPO, because they have enough money. When they need money, they get it from their bank. Access to money is very easy.” (Interview 2)

“In Germany it is hard to attract investors for oil companies, it is not a green business model, quite tricky to attract investors with your brand. It is more comfortable for companies to go to London.” (Interview 2)

“Here in Germany we see typically we have professional investors, institutional investors, and only some who invests private, typical German private investor is not investing in shares. And it is pretty sad, a big problem in Germany that we have. A lot of money is missing in the Stock market.” (Interview 2)

“The investors are in London, and the risk of the title of investors, the availability of investors and the whole thing around investors is much better than in Paris or Amsterdam. And that will remain.” (Interview 3)

“The main banks are sitting in London, main investors are sitting in London, and they will remain there in London. When you want to talk to an investment banker that brings you public you have to go to London. Only a few, very few German banks are able to do an IPO. Not only the investor ecosystem remains in the UK, but an IPO ecosystem stays in UK. Brexit is the potential risk in regulation change, that's it. You will see that London is much more international market than Frankfurt, it's a fact.” (Interview 3)

“The hedge funds are more in the UK and States. Mutual funds, maybe they have more the equity part, on the management side, and investors behind more equity-oriented than German ones. In the UK there are a lot of hedge funds, bigger and smaller, who promote aggressive trading on the UK market. If you do an IPO and you go to the market you need to have a certain path of your shareholders, in the form of trading orientation.” (Interview 4)

One of the experts from London questioned the mighty power of the London Stock Exchange in present day framework:

“There have been a lot of consolidations between the stock exchanges across Europe. Euronext is now a big powerhouse. Stock exchanges are linked, if not fully aggregated. At the end of the day, when you are listed, you want to attract the diversity of investors. If you are a French company you want to have not only French investors but investors from the UK, Germany and the US. Stock Exchanges now enable investors from anywhere to come and invest. If you look at Euronext it's the largest stock exchange in

continental Europe, but based in Amsterdam and it operates everywhere…" (Interview 5)

4.6 Knowledge Base

London is characterized as a knowledge base for IPO operations by the majority of interviewed experts. It is an undisputed fact that entrepreneurs from other countries are coming for a road show to London first. Respondents stated that it is out of the question to think that Brexit would undermine the current prestige of a leader in capital markets when it comes to excellent expertise. London hosts the EU headquarters of big houses such as JP Morgan, Goldman Sachs and Morgan Stanley. It is believed by respondents that Brexit will not harm the investor ecosystem in Britain and its connection to the US. Nowadays almost all trading platforms are advanced and have quite similar features and services. What is more important is the knowledge and expertise. Whilst conducting an IPO, the process will most likely bring entrepreneurs to London:

"companies are road shows in London. London is a really international hub like New York or Hong Kong." (Interview 3)

"in London the number of people working in the financial industry is almost the size of the population of Frankfurt. For me, London remains the center of competence, for a lot of capital markets businesses… in the case, for example Deutsche Bank, I believe that the head of equity capital markets, equity syndicate, is in London. There is not much to move from there." (Interview 4)

"London is the Hub, and other teams will support... I believe it is important to have one place where they really know what investors think about the company which goes to the public market, you need to have people who know what Asia think about this growth company which goes to the market via IPO, they need to know if this is more worth to go to the USA market, or if it's a European company and it is not interested in listing at US market, but in what set up to get American investors get interested and attracted. You cannot decentralize this kind of knowledge" (Interview 4)

"if you look at the distribution of investors and the big companies listed at the FSE like SEP, Allianz etc. I think 2/3 of investors in those companies would have their seats in the States or the UK." (Interview 1)

"The role of the UK's LSE as it was always a bit different than the other EU exchanges. LSE has always been a marketplace which attracted international companies, so they have always been in the position to easily attract companies from all around the world. Chinese, USA companies. London is very international, you go on a roadshow, you find your investors in the UK and it's a logical next step to do your listing on LSE. I would say when you look at Vienna, Euronext, Frankfurt, Madrid, most companies would come from the same country, except the LSE." (Interview 1)

"the UK is the financial capital of Europe. JPMorgan, Morgan Stanley all have their European headquarters in London." (Interview 1)

"Even with Brexit, Goldman Sachs, JPMorgan, Morgan Stanley, they have their center of competence for IPO business focused in London. And about other examples: Investor communities, environment and so on." (Interview 4)

"Most of the brains will still be in London. The teams there in London, they have the capacity, they don't care if the listing will be in LSE, Paris or Euronext, Frankfurt. They will serve anywhere all the clients with the best strategy." (Interview 4)

"In reality, if you would be a CEO or CFO of a company and you talk to people at Deutsche Bank, JP Morgan or Goldman Sachs, you would always talk and be in touch with somebody from London, product manager, syndicate people etc. You cannot leave it." (Interview 4)

"The guys in London are longer in this business, and willing to make a deeper analysis than in Germany for example." (Interview 4)

"no analyst is working for a bank in Frankfurt which is really a sector specialist. Guys at UBS, Morgan Stanley, CITI, they have a global network, they have people in America, Asia, Japan, and somewhere and they have all the sector knowledge which is needed." (Interview 4)

"Brains are in London. I believe there is no big difference if you go to Frankfurt or London stock exchange, you would in Europe always get access to the same investors. In the end, the bigger company might trade their stocks via totally different platforms, or so-called internally." (Interview 4)

"In terms of sector, there is no huge difference if you use a London or Frankfurt platform. The listing is not the main issue in the IPO. It is more the investor behavior, that is the right investors for you. Surprisingly for German IPOs, the German investors are not the dominant ones. This is the case for a lot of companies." (Interview 4)

"my company is a very sustainable business, and if you are not polluting anything, there is no advantage if I go to Frankfurt or London. It is again to find the right investors. You behave nicely to employees, make good sales, your heat is limited, you should look at the investors who pay certain attention to your company, they say I like this company." (Interview 4)

Surprisingly, on a contrary side there is one expert opinion from London. Respondent comments the shift of ecosystem from London to Berlin, Paris and Scandinavia since 2015:

"It has changed. In the past, it was a very strong hub. Because in history London always has been a very strong place for financial services, a lot of money movements have happened. When the 2008 financial crisis happened, the UK realized they needed to not to rely only on the city, they had to develop more. They have decided to push on tech and innovation and make London the most attractive place for entrepreneurs from Europe. The benefit they had is a vibrant financial sector. And if you want to create the company you need capital. So, the first thing happened, VC firms who wanted to operate across Europe, decided to set up their HQ in London. That did help to attract EU entrepreneurs from Europe. Secondly, the UK is connected to the USA, it is a jumping board to investors towards the States. Also, similar culture and language. London had a run for 8 years, where it became the only place to be for startups in Europe. About 5 years ago, Germany, France and Scandinavia realized that they also needed to make their own ecosystems. Why are our companies going to the UK or USA? Since 2015 Paris, Berlin has become more interesting. Now we see French,

Swedish, German great companies. Currently, we have full ecosystems here in Europe. London emerged in 2008. It was on its own till 2015." (Interview 5)

5 DISCUSSION

The following chapter presents the discussion of results but was not only limited to the research questions asked, but also to the recurring themes identified during the interview for the current research. This study aimed to determine how Brexit could affect the shift between LSE and DB stock exchange platforms since the year 2016, as now Britain is treated as a third party country due to it being withdrawn from the EU.

Based on interviews, the author was able to successfully identify the main aspects for companies located in the pre-IPO stage and the reasons behind it. The findings correspond to the official EY IPO guide's destination Compass considerations. The historical evidence validates experts' words regarding the LSE being the main European host for international IPOs.

Katrin Migliorati and Stefano Paleari, in their paper "The underwriters of IPO in Europe's second markets," clearly show the significance of the LSE AIM market in Europe and its advance over other players such as Frankfurt DB. The author also found an evidence of the differences in volume and foreign IPOs between DB and LSE. Those reports are provided and published by consulting houses EY, PWC and KPMG.

5.1 Research Question

Does Brexit cause companies to move their IPOs from London to Frankfurt?

According to the experts, most agrees on London being an undisputed financial center of Europe. They consider London a capital markets hub with an excess of resources, including investors, culture, liquidity, expert/knowledge base, and image. In addition to arguments, all consider Brexit to be a regulation change, which could bring slightly increased costs for lawyers at the very beginning of a new framework introduction. The ecosystems of London and Europe are, however, interconnected. Companies tend to stay at home for the IPO, nevertheless, London is attracting companies from overseas, has been validated.

Since 2016 there have been identified several parameters which might affect IPO trends, including a trade war between the USA and China and a recent pandemic caused by COVID 19.

Data analyzed by PwC IPO tool shows clear domination of LSE over DB from 2017 to 2019 (Figure 1). The number of listings and volume of IPOs are led by the LSE platform while DB has overperformed LSE by the volume in the 1 quarter of 2018. Back then there were equal number of listings on both stock exchanges. However, DB showed a volume of 8,351m€ and LSE 1,593m€ in deal value. Further evidence shows that DB and LSE both have quite equal volumes in the 4th quarter of 2018. Nevertheless, back then DB had only 3 listings while LSE conducted 12. From available data it is possible to draw a conclusion that LSE had a stable domination over DB while the uncertainty over Brexit. (PwC, 2020)

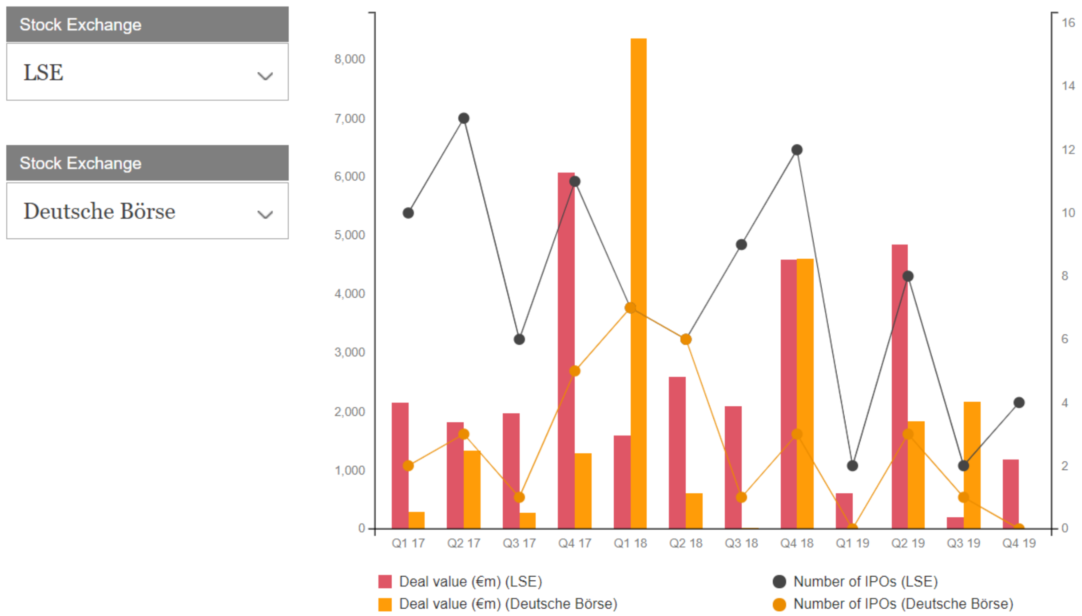

Figure 1. Performance comparison of London and Frankfurt Stock Exchanges. Source PwC IPO Statistics.

It is also important to note that according to the comparison based on the official data between DB and LSE listed companies, DB has over 97% home listing companies to date. Whilst LSE has significant international portfolio, with 1/3 being represented by companies of non-British origin. It makes LSE with 565 foreign listings outperform DB with its 54 cross borders being on board to the data from November 2020. The comments of experts regarding the more complicated compliance at DB makes it unattractive for foreign companies to list there could be backed by the data extracted from official DB web page. (Deutsche Börse, Statistics, 2020) (LSE, reports, 2020)

The experts are sharing quite a similar view regarding Brexit implications. In their focus Brexit is just another regulation implication. It might bring additional costs to companies when conducting a double listing or it could force them to locate an office on continental Europe. They are convinced that in case there are any problems associated with "Brexit" in the UK, most probably those issues will be in the fields of production, skilled labor, and export/import. Third party countries are not affected by Brexit which is a disputed issue inside the EU. Investment banks, financial houses are the most transparent, it is observed by authorities and taxed accordingly. Financial operations are not limited in scale such that Brexit could have an adverse effect in reality. It is possible to manage capital and transactions, and EU borders are not an obstacle here.

5.2 Brexit/IPO uncertainty

Pierre Boulanger and George Philippidis in their paper “The end of a Romance”, have designed possible scenarios of Brexit for EU members and the UK. The budgets of both parties will be decreased by several billions which must be covered by other sources of income. Brexit is not bringing any profit from a financial perspective for either of the two members. (George Philippidis, 2015)
It is worth it to prove the expert opinion against the facts between 2016 and 2019. With Brexit adding its dark contribution to the overall IPO market parameters the author attempts to find an answer from the reports at EY and PwC.

The year 2016 was quite challenging for the LSE and London in general. The value of London IPOs decreased by 59% (€9.7bn) and volumes by 27% (67), representing its worst year since 2009. The London IPO market in 2016 faced a series of challenges, from generally unfavorable market conditions to the result of the EU referendum. This resulted in several IPO cancellations and postponements, as well as some deals pricing at the bottom of their range. However, AIM seemed to be sheltered from this and continued to perform well, with 39 IPOs raising over €1.3bn. (PwC report, 2016)

Next annual report of 2017 tells that the UK IPOs back to pre-EU referendum levels, with volumes, compared to the 2016 increasing by 54% in 2017. London returned to the top spot in both value and volumes having raised €12.5bn, an increase of 86% on 2016, which was predominantly driven by a rise in listings of investment vehicles and an increase in cross-border IPO activity. The pipeline for UK IPOs for the year ahead looks healthy, and includes several international companies, demonstrating London's continued attractiveness for cross-border IPOs in Europe. (PwC report, 2017)

EY stated in their report that the year 2018 ended as experts expected. However, with IPO activity held back toward the end of the year by geopolitical tensions. Uncertainty was extended by additional trade issues between the USA, China and the EU, but not only limited by the looming exit of the UK from the EU. Due to all the mixture the volatility for investors was quite high. (EY report, 2018)

PwC London shows that 60% of European IPO values in 2018 raised on top two exchanges: London Stock Exchange and Deutsche Börse. The London Stock Exchange and Deutsche Börse were effectively equivalent by value at €10.8bn and €10.7bn respectively, but London remained Europe's most active market with 82 IPOs compared to 17 on the Deutsche Börse. London has continued to demonstrate its role as a destination of choice for cross-border IPOs, with companies such as Avast plc from the Czech Republic, Slovenia-based Nova Ljubljanska Banka, Africa-focused Vivo Energy and Kazakh group, Kazatomprom. (PwC London report, 2018)

In their annual report for 2019, PwC experts claim that the London Stock Exchange retained its position as Europe's most active market in 2019 and contributed 30% of total European IPO proceeds. More specifically, London IPO proceeds were £5.9bn in 2019 down by 39% compared to 2018 where £9.6bn was raised from 68 IPOs. In total, there were 27 IPOs on the London Exchange in 2019, 60% down on the prior year. Despite the backdrop of Brexit, London has continued to attract cross-border IPOs, such as the Middle Eastern payments business Network International; Helios Towers, the African telecom tower infrastructure company; and Africa's largest mobile operator, Airtel Africa. (PwC report, 2019)

The 2020 year is presented by Morgan Stanley research group opinion on Brexit is that the opening UK position has been hard, with the government committing in legislation to the transition period ending at the end of 2020 and promising to take back control of regulations, rather than staying aligned with EU rules. Nevertheless, the EU has consistently declared no tariff, no quota, and no check access to EU markets depending on the UK agreeing to a level playing field. Thus, following EU rules and common rules on the policy framework, including state aid and environmental and labor market rules. All of this combined imply an increase in trade barriers. A more precise analysis will be possible after the deadline in later December 2020 (Figure 2). (Morgan Stanley, Neil, Scarica, 2020)

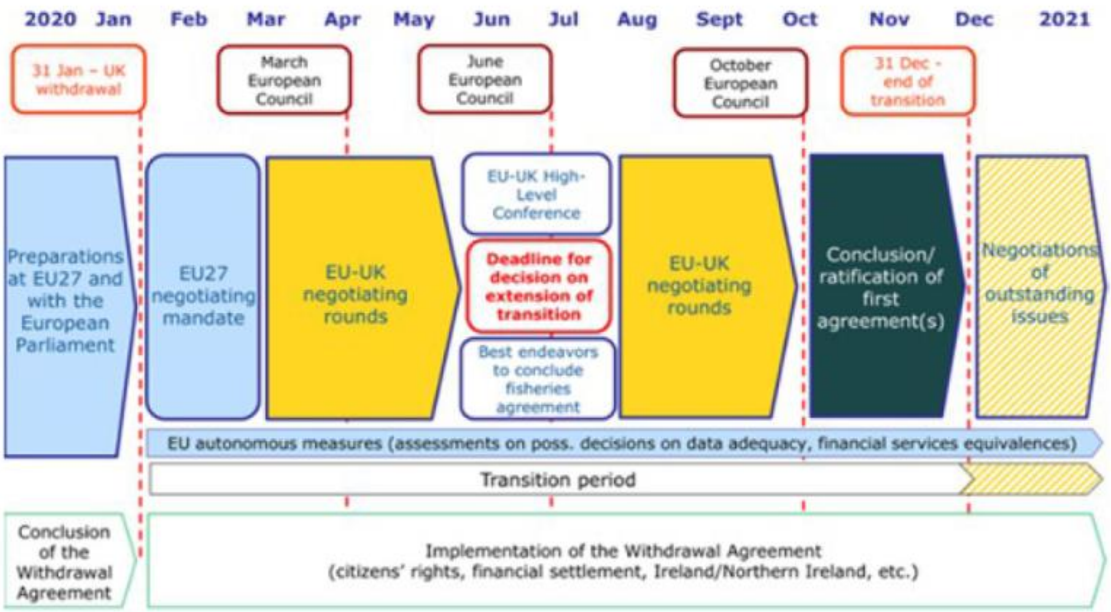

Figure 2. Brexit timeline of trade talks. Source: European Commission, Morgan Stanley Research

5.3 IPO Compass

Dr. Martin Steinbach suggests using the IPO compass (Figure 3) when deciding where to list. IPO is something that a company is considering around 24 months before the date of execution. Management of the company should consider four criteria such as strategy, valuation, costs, and preferences. Even before the IPO considerations, there are several possible strategies to choose from private sector financing through banking or M&A market or the public IPO. EY suggests waiting for favorable market conditions in case capital markets are volatile. It is imperative to have the flexibility and agility in alternative funding to smoothen the IPO's delay. Multiple plans should be ready to execute in different case scenarios. The CFO is a spearhead in the IPO effort. The financial team must have a mix of skills to deliver reporting more quickly, and the treasurer shall start working with the accounting teams to provide the capitalization tables for the prospectus. (EY, Steinbach, 2017)

The right timing plays a significant role in IPO decision. Many factors influence the market – i rates, economic forecast, political instability etc. The hard indicators are the level of valuation and the volatility of the capital markets. While soft indicators are the after IPO performance of recent IPOs and investor sentiment determined by the volume of trading. In other words, investors prefer to invest when there is less risk. Both parties think about short term, midterm and long term. There is never a perfect time to go public as the window of IPO opportunity is hard to predict due to sudden external shocks. International events affect capital markets promptly due to it globalized interconnection. (EY, Steinbach, 2017)

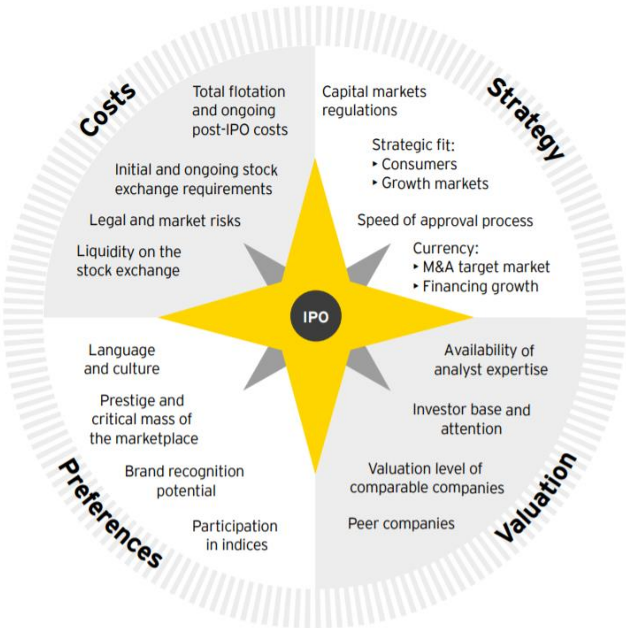

Figure 3. EYs IPO destination compass: considerations when deciding where to list

5.4 Home Listing Bias

Although most capital raising occurs predominantly in domestic markets, the decreasing transaction costs resulting from ongoing financial globalization have pushed more companies to turn to global markets as a source of funds. Research reveals that the regulatory tightening did not trigger European companies to emigrate to other countries, and European IPO markets have become more attractive. As a result, from the studied sample between 1995 and 2011, there has not been a negative change in Europe's foreign listings due to changes in regulations. (Weisbach, 2008) One of the main stages of IPO is homework preparation. When preparing for an IPO, management has to create a strategy and clarify whether choosing the right capital market or listing zone, stock exchange, and the segment will best support your company's strategy. A holistic IPO assessment would be a great advantage. According to EY data, trends show in long-term mean, more than 90% of issuers list on their domestic stock exchanges. Thought those companies could be able to trade their shares abroad concurrently. (EY, Steinbach, 2018)

Gary Biddle says that one of the reasons to do listing at home is costs related. For instance, costs can also result if a foreign exchange requests disclosure, which may not be required at home. Sudden unpredicted political issues or restrictions imposed by regulatory agencies in foreign countries may affect stock offering. Another point is the disclosure of top managers' and directors' salaries, except when information on individual remuneration is consistently disclosed to the issuer's home country's shareholders or the public. Costs of being public in a foreign country could be higher also due to currency fluctuations. (Biddle, 1991) Companies usually go public at their home market, meaning where it is incorporated. The main stakeholders are investors, who also tend to expect the listing. The reasons are bonds to the economy, culture, infrastructure, technology base, regulation, and taxes of its home country. In addition to all those factors, the company might be bound to the applicable capital market standards. To be at home in a market also could mean a better understanding of its business model and proper evaluation by local investors. (EY, Steinbach, 2018) Curt B. Moore, in the research-based on historical evidence, has demonstrated that one of the most significant challenges faced by those contemplating the merits of an investment in foreign firms comes from the inherent uncertainty in assessing host country risks. Investors tend to allocate a relatively large fraction of their wealth to domestic equities. This home bias associated with home country risks should be extreme for IPOs from emerging economies.

The strength of a home country's legal environment is expected to be an important factor in foreign firms' immediate proceeds at IPO. It follows from the home bias perspective that IPO performance should be significantly affected by home-country institutional characteristics, such as the degree to which a country protects the rights of minority shareholders. (Moore, 2010) In the paper The Effects of 'Home' and 'Host' Country Institutions on Performance, authors show that other things being equal, the degree of investor protection in the firm's home country and its choice of the listing market interact significantly to affect its stock market debut, and, hence, these factors should be considered as important strategic factors associated with the threshold firm's evolution and growth. (Moore, 2010) For example, as a non-European country, Russia - business prefers the UK in terms of listing. Recently, more and more Russian companies prefer to list their shares on the London Stock Exchange. The media believes that this trend is due to several factors, including geographical, cultural, and legal - Russians exploit loopholes in British law, which greatly contributes to profitability. Loopholes such as opening an office in London, to place a minimum number of shares, and retain a majority stake in their home countries. All this makes London a much more international market than most. Many oligarchs moved to the UK after they cash out in the 90’s in Russia. Those oligarchs play quite a significant role in the capital markets for Russian companies. (Johnson, 2012).

Balakirev notes that a large "market depth characterizes the London Stock Exchange" and high liquidity - "more funds can be attracted; a company can be valued more fairly than on less liquid markets. "The high requirements for issuers to disclose information translate into a high degree of investor confidence in securities that are in circulation, and especially those listed on the LSE," the expert says. "Many institutional investors, for example, pension funds, place funds in listed securities on the LSE. A fairly wide range of traded securities allows us to find close analogs and evaluate the new company more profitably against their background." The analyst also noted that cultural, political, and historical aspects also affect the choice of the exchange - investors' preferences regarding the geographic location of issuers, awareness of the situation in certain markets, prejudices regarding specific issuers, and so on. "It is more expensive to be located in London since the world's financial flows are concentrated there while placing in London is less risky due to the developed law in the field of protecting the interests of investors in Britain," says Osin, chief economist of Finam Management. (Gigaom, 2012) Capital in developed countries is under pressure from regulators since its role in the GDP of developed countries has increased significantly over the past decades and creates risks for balanced economic development. This creates the potential for an increase in the global role of financial centers in developing countries in the future in the next decade leveling risks ". (Gigaom, 2012)

Cross-border activity will remain significant until the capital markets infrastructure in emerging economies develops. (PwC, cross-border trends 2012)

5.5 Investment Culture and Knowledge Base

The investment culture differs between Germany and Britain, this is affected by several factors:

- The number of foreign investors differs widely
- Stock markets are more liquid in London than anywhere else in Europe
- Average daily share turnover at the LSE amounted to USD 17 bn in 2017 (both electronic and negotiated deals) and was much larger than at Euronext (USD 7.8 bn) or Deutsche Börse (USD 5.8 bn).
- Foreign stocks account for a remarkable one-third of this turnover at the LSE, whereas they play a much smaller role at Deutsche Börse.
- Most of the foreign share trading at the LSE takes place in the form of negotiated deals rather than electronic orders, which may make this a more profitable business for investment banks.
- Even though the immediate impact may be limited, different rules for capital markets and investors will probably emerge and the free flow of capital between the EU and the UK will probably be hampered in the longer term as a result of Brexit.
- This is highly likely to make foreign stock listings at the LSE less attractive and to reduce UK-based banks' revenue pool from both underwriting and trading. (Deutsche Bank Research, 2017)

London has been a magnet for foreign banks over the past 50 years (Figure 4); the UK stands out as one of the most international banking hubs globally. In 2017, 49% of bank assets in the UK originated from foreign-owned banks. This is an extraordinary share of foreign bank activity, contrasted with less than 20% in the US, 14% in Germany, or 4% in Japan. (Deutsche Bank Research, 2017)

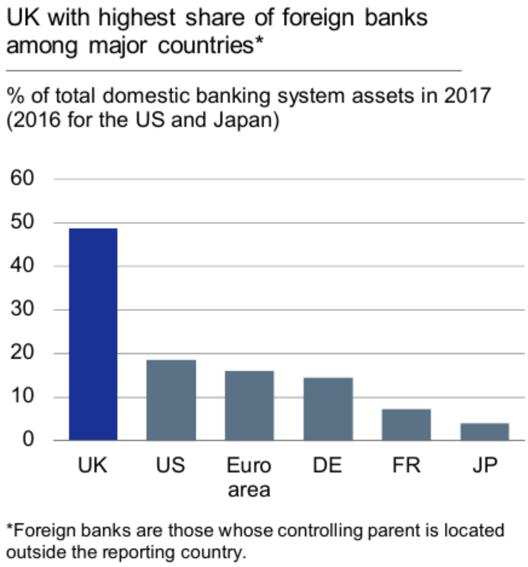

Figure 4. Foreign banking in the UK. Sources: ECB, BIS, Deutsche Bank Research

According to the data provided by Bloomberg, the earliest fears about London hemorrhaging tens or hundreds of thousands of jobs have not become a reality. However, several large global investment banks have relocated around 1,000 jobs to the EU continent so far (Figure 5). In addition to it a total of 7,000 could easily move in the short term. (Bloomberg, 2019)

Figure 5. Relocated employees from the UK by Investment Bank. Source: Bloomberg

The arm of the London Stock Exchange Group Plc has also been under pressure from Frankfurt-based Eurex Clearing, which wants a bigger share of the euro interest rate swap business. It has made some inroads in a growing market, but more than 90% of the market remains in London. This is because big firms dealing in multiple currencies and can save on the cost of margin. (Bloomberg, 2019) The Association for Financial Markets in Europe (AFME) estimates that securities and derivatives trades with EU-27 clients which are booked in the UK amounted to a huge EUR 1.1 tr in 2017. Similarly, banks located in the UK underwrite around half of the debt and equity issued by all EU companies, according to the BoE.

Let’s look at the equity market first to assess the cross-border capital market relevance of London. Between 2012 and 2017, a staggering 587 initial public offerings (IPOs) of domestic companies took place at the LSE Group (mainly the UK, but also including Italy), the most of any European exchange (Figure 6). More importantly, however, there were another 105 IPOs of foreign companies (outside the UK). It is far more than the 21 at Deutsche Börse or 25 at Euronext, LSE's main continental competitors. In total, 430 foreign stocks are currently listed at the LSE Group compared with totally 160 at Euronext and some 50 at Deutsche Börse. This reveals the significance of London for raising equity capital not only on a domestic but also on an international scale. (Deutsche Bank Research, 2017)

Moreover, stock markets are more liquid in London than anywhere else in Europe. Medium daily share turnover at the LSE amounted to USD 17 bn in 2017 (both electronic and negotiated deals). That was more extensive than at Euronext (USD 7.8 bn) or Deutsche Börse (USD 5.8 bn). Foreign stocks account for a remarkable one-third of this turnover at the LSE, whereas they play a much smaller role at Deutsche Börse or Euronext. Furthermore, most of the foreign share trading at the LSE takes place in negotiated deals rather than electronic orders, making this a more profitable business for investment banks. Even though the immediate impact may be limited, different rules for capital markets and investors will presumably emerge, and the free flow of capital between the EU and the UK will probably be hindered in the longer term due to Brexit. This is highly likely to make foreign stock listings at the LSE less attractive and reduce UK-based banks' revenue pool from underwriting and trading. Overall, a noteworthy share of UK-based banks' charge and commission income may be at risk in Brexit's aftereffect. Non-EU banks will have to set aside EUR 35-45 bn of capital after Brexit. (Deutsche Bank Research, 2017)

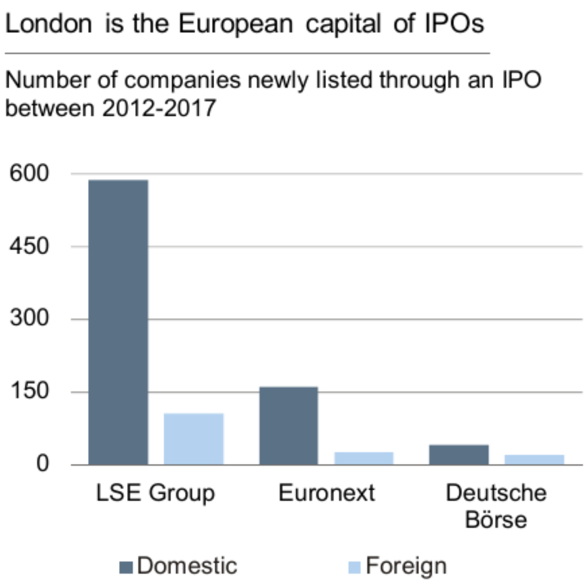

Figure 6. London compared to Frankfurt's IPO listings. Sources: ECB, BIS, Deutsche Bank Research

6 CONCLUSIONS

Does Brexit cause companies to move their IPOs from London to Frankfurt?

All current indications show that there is currently little movement of IPOs from London to Frankfurt in the near term. This situation will require continual monitoring and further research analysis to check on this status quo.

Brexit is still in its ongoing process and carries many uncertainties. With its unpredictable outcome, capital markets experienced difficult times inside Europe. Based on expert opinions, it can be concluded that regulatory change will not affect the companies outside of the EU.

From the findings discovered in this research, London outperforms Frankfurt in aspects such as investor base and knowledge hub as it attracts dozens of cross-border listings, while Frankfurt has mostly local listings.

The regulatory change can affect other fields such as production, retail services, skilled labor, and export/import and, consequently, impact the capital markets in the long run.

Despite the regulation changes, London is well-positioned to keep its leadership position due to its strong historical development of investor/knowledge base.

Capital market operations are not limited physically by Brexit. Thus, it would less likely affect IPO trends in reality. It is possible to manage capital transactions in a cross-border framework with fewer costs than a real business.

Regulation changes could add some extra work to the law departments of listing companies. The IPO subject is one of the most researched among financial discipline.
Nevertheless, the amount of independent research is still limited. For example, the only paper that addresses the question of the motivation for initial offerings is Pagano, Panetta, and Zingales (1998). Companies' motivation for going public varies worldwide; however, there is stable evidence of mainly domestic listings. This notion has also been confirmed by the experts who took part in the interview.

After all the stages of Brexit are executed and new regulations steps are initiated, the subsequent implications for investment banking and its possible impact e.g. on listings' trend would be excellent topics to suggest for future research. Currently, there is a noticeable lack of knowledge on how post-Brexit legislation will look like, which brings a significant level of uncertainty, confirmed by all respondents.

The legal framework will be reformatted in the coming years (Figure 2).

The literature is remarkably silent on the IPO trends and possible shifts due to regulatory tightening. To understand the reasons for a cross border listing, the author used EY literature such as IPO destination, contributed by Dr. Steinbach.
To explore Brexit's trends and effect, the author of this paper managed to do a thorough evaluation of comprehensive sources of relevant information that is aligned with both theoretical and practical framework.

The author examined the post-Brexit environment's possible outcome with experts and analysed the data available from LSE, DB, EY, PwC IPO reports. Finally, this paper explores the extent of Brexit's uncertainty by relating the number of listings and deal value on researched stock exchanges. Consistent with the interviews, the author's analysis suggests a drastic change in IPO trends between LSE and DB was not found. The findings from interviews are in line with the reports produced by the big four consulting houses. The research was successfully finalised with the results presented in the fourth chapter. It is possible that the author will continue working on the extension of the subject in the current paper when pursuing his MSc in business in the next two years. It should be noted that the number of possible hypothetical outcomes goes beyond this study due to the significant uncertainty surrounding Brexit.

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APPENDICES

APPENDIX 1

INTERVIEW QUESTIONS

What kind of concerns does Brexit bring to London's investors' community, as it is considered a hub of financial and capital markets?

What kind of homework has been done, and what your team is working on?

What makes London such a strong player in capital markets? What makes it so strong like New York and Hong Kong? Why is London the financial hub of Europe?

Why are companies coming to London? Why do they do their IPOs in London?

When a company decides the right moment to conduct an IPO, how do you choose the right time and place?

What about Deutsche Börse? What is your experience?

What are the main differences between investors in Britain and Germany?

What could go wrong with Brexit, investors, and IPOs in the future?

Why the UK and not France for you?

Which is better: London or Frankfurt Stock Exchange for companies to conduct an IPO in the context of Brexit uncertainty?

Does the UK remain with these requirements?

Will it anyhow change, due to Brexit? Will it anyhow benefit Frankfurt as a financial capital of Europe?

Can we consider an obstacle to this trend as a language barrier, English and German? Maybe currency? How can Frankfurt turn it into an advantage?

What is the reason for companies in the Middle East or Russia to come to the UK? How can we change their minds and attract them to Frankfurt?

Could the decision also be impacted by the difference between liquidity access and the diversity of investors?

What are the main criteria to look at when considering a stock exchange for an IPO?

Could you please, tell me a little about your background?

Could you please explain how the decision making for IPOs is made and how Brexit will affect the decision when companies have to choose the right stock exchange?

The exceptional year 2018. When DB outweighed London in Volume of IPO, is it really due to Brexit? Was the decision of such international companies like Siemens to conduct an IPO in Frankfurt and not in London due to Brexit uncertainty? OR Is it because it is a German company?

As a foreign unicorn company, where do I go? What kind of advice do you give to such companies? What are the pros and cons of DB and London?

There are also oil companies from Saudi Arabia, Russia, etc., who went to London, not Frankfurt; why is that? Why do adult companies choose to go to London and not to Frankfurt?

What could you say about the differences between Frankfurt and London's investors in terms of values, risk-taking, behavior, etc.?

Let us start with what happened in 2016.

What are foreign companies looking for?

What are the main differences between German investors and British investors?

What about passporting rights?

What is your opinion on the current situation?

Could you please comment on this particular year?

Is it something similar to the AIM market at the LSE?

What is the share of 500 companies from foreign issuers?

What is your professional opinion on this topic? Will it increase Frankfurt's popularity due to Brexit? What types of perks and benefits for foreign issuers could be offered?

Is the Deutsche Börse now taking LSE's position, and it will attract international companies from all around the world and be the number one hub in the EU where companies would do the listing?

Why is Rosneft or Gazprom heading for London and not the US or Frankfurt?

The foreign company will consider the underwriter price; what else?

What are the possible changes you have identified since 2016 in London?

What are the current updates on listings for foreign issuers on cross border listings?

To summarize our productive discussion, at what point foreign companies look at Frankfurt, what advantage could be there?

What are the benefits/services offered for a company when it arrives at the LSE discussion table?

What are the comparative advantages of LSE offers to foreign companies while they decide on whether to list here or not?

What kind of industries would not be accepted for listing?

What is the example of when LSE declined a foreign company in providing listing services?

What are the main requirements for a foreign company to conduct an IPO on LSE in 2019? What main changes in legislation/reporting/requirements took place since 2014?

How this reflected in the ambitions of foreign companies and investors?

What are the alternatives for Passporting rights that could be used?

What keeps LSE ratings several positions above Frankfurt?

Any advice on improvement?

What is the general competition between LSE and DB in IPOs?

Could you please tell me about representation by active foreign investors?

Could you please tell me about representation by active non-EU investors?

Could you please tell me about representation by active British investors?

What are the key differences in their approaches, for instance, risk-taking preferences and values?

What were the key IPO trends and challenges from 2015 to 2019 that you are aware of?

Why do you think London is still a leader in Capital Markets?

How LSE keeps an innovative track while the big investors might be more conservative?

How do you generally help foreign companies with listing?

What is the average type of a foreign company seeking for a conducting an IPO in London?

What do you think plays a key role in an excellent LSE image? Why is it this way?

How London successfully attracts its overseas investors?

What does make LSE so advanced and trustworthy?

What industries are underrepresented on LSE? Why?

What are industries not represented at all? Why?

What do you think is the best way to attract foreign investors and companies to debut on LSE?