CITY OF LONDON FINANCIAL MARKETS

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CITY OF LONDON FINANCIAL MARKETS G A WALKER

London is one the three largest financial markets in the world with New York and Tokyo. London originally grew as an international trading centre in parallel with the expansion of the British Commonwealth and then the establishment of its position at the centre of the international bills of exchange and gold markets. The bill of exchange and, in particular, the 'Bill on London', became the most important form of payment in international trade and finance for almost three hundred years. The value of international currencies was also fixed against the price of gold for over two hundred years under the 'Gold Standard'.

London remains a leading national and international financial centre. Rather than constitute any single market, London is made up of a number of separate markets and sub-markets. The main domestic markets are the wholesale money markets with the commercial and retail banking and securities markets. The principal international markets are the Eurodollar, the foreign exchange and the financial derivatives markets. London is also the centre of number of other commodity related markets (including the oil and metal markets) which trade product related financial instruments.

1. CITY OF LONDON

The City of London has always been recognised as one of the most important and most individual of international financial centres. Despite political and military successes and crises over a large number years, London remains a vital location for global financial markets and financial services. While money and banking did not originate in London as such, it has made a significant contribution to their evolution and development, at least, since the 17th century. Even as financial markets and financial innovation have continued to change and adjust during the early years of the new century, London remains a key centre both for traditional banking and financial services as well as a new markets and services, electronic dealing and trading platforms and products.

(1) Origins

The financial centre of London is referred to as the 'City of London' which is approximately one square mile (274 hectares) around the Bank of England in Threadneedle Street. The City stretches from the Law Courts on the Strand in the West to the Tower of London on the East and from the Thames River in the South to Liverpool Street, Spitalfield and the Barbican in the North. London has also since expanded into Canary Wharf in Docklands in the east, where many of the largest investment banks operate, and into the West End, to where many hedge funds and new boutique institutions have moved. Many of the largest financial institutions in the world including a number of the main markets are based within these three small areas.

City of London

London had initially been occupied by the Romans until 410 A.D. London then consisted of an area of some 330 acres enclosed by a wall some of which remains by 'London Wall' in Moorgate. The original Roman wall was approximately 3¼ miles long with six gates. London grew quickly as a national and international trading centre with the sea access being provided through the River Thames. London was then ravaged by the Great Fire in 1666 which destroyed almost two-thirds of the City. The old centre was then rebuilt and by 1700 London emerged as the world's large city. The main commercial and trading areas during the 18th century were the warehouse districts near the docks in the east. London then grew as an international trading centre with the expansion of British trading interests overseas and the British Commonwealth (Clarke, *How the City of London Works* (2008)).

The early City layout had not been planned and was organised on earlier mediaeval street lines. A significant building programme was undertaken in the 1820s which attempted to create a more modern commercial city. This was further stimulated by the completion of the main railway lines into London with the main Victorian railways stations. This metropolitan expansion was further stimulated with the creation of the underground railway system and the introduction of hydraulic lifts in many of the buildings. While much land ownership remained with the main aristocratic families, the church and City livery companies until the beginning of the First World War, the Corporation of London then expanded as a major landowner after the Second World War (Clarke, *How the City of London Works* (2008)).

Recommended Reading William Clarke, *How the City of London Works* (Thompson London 7th ed. 2008); Stephen Valdez and Philip Molyneaux, *An Introduction to Global Financial Markets* (Macmillan, London, 6th ed. 2010); Richard Roberts, *Inside International Finance* (Orion London 1999). See also Alexander Davidson, *How the City Really Works* (Logan Page 3 ed 2010); and Christopher Stoakes, *All You Need to Know About the City* (2009/2010 Lomgtail). On the development of the City of London more generally see also, David Kynaston, *The City of London* (Chatto & Windus London) 4 Volumes.

(2) Gold Standard

London originally emerged as an international trading centre due to its port access and position within the British Commonwealth. London also grew during the 18th century as one of the largest financial centres especially with the international bill of exchange market and the emerging acceptance and discount markets in London. London would then become the main international centre for bills of exchange and letter of credit related finance.

International currencies were also for almost 200 years based on the gold standard with the gold market being managed out of London. The Bank of England then acted as the main counter party in the international gold market against which the values of all of the other currencies were set. The original Gold Standard was then replaced by the 'Gold Exchange' standard during the early 20th century under which sterling was fixed to gold and other currencies valued against sterling.

Following the Second World War, the dollar replaced sterling as the main international reserve currency which position was formalised under the Bretton Woods system of fixed exchange rates. This was signed at the Bretton Woods Conference in July 1944 which provided for the value of gold to be set against the US dollar (at $35 per ounce) and the other currencies fixed against the dollar. This continued until the collapse of the Bretton Woods system between 1971 and 1973 after which international foreign exchange were dealt with on a fluctuating basis.

It was in response to the new volatility both in foreign exchange and interest rate risk that the collapse of Bretton Woods created that led to many of the new financial derivatives products developed and early derivatives markets being set up as well as the general structure and operation of the modern international financial system within which global markets operate. The modern international financial market place can then generally be considered to have begun with the main currency and related changes that took place during the early 1970s.

(3) Continuing Importance

London remains one of the most important financial centres of the world due to the continuing availability of a number of the earlier attributes that led to its original expansion and subsequent development. These provide the key characteristics of the London commercial and financial practice place and culture within which business and finance have been conducted. Relevant factors include relative political stability, central communications and transport, compact size, liberal economic and financial system policy, open competition policy, central time zone and the quality of the supporting legal, accounting and other professional services available. These essential attributes have allowed London to continue to act as a central player in the construction of a new international trading and financial system and a new global economic infrastructure.

2. LONDON MARKETS

The main domestic markets are the money markets and the banking markets with the main international markets being the Eurodollar markets, the trade finance markets and foreign exchange markets.

(1) MONEY MARKETS

The money markets consist of the primary and secondary markets:

(i) PRIMARY MONEY MARKET

The primary money market is the market in which the Bank of England intervenes as central bank to control the volume and cost of liquidity (money or credit) within the financial system. The Bank formerly only dealt with a limited number of the ‘Discount Houses’ (with the market also being referred to as the *Discount Market*). The range of available counter parties with which the Bank can deal has since been extended and the range of instruments expanded, in particular, to include 'Repos' (sale and repurchase agreements which has the same commercial effects as a secured loan). The Bank generally either buys or sells paper (bills) in the market which will consequently increase or reduce the amount of funds (liquidity) available in the discount market which finds are then either passed on or withdrawn from the rest of the financial system. The cost at which the Bank deals also creates a floor rate (Bank rate) against which other lending costs can then be calculated.

(ii) SECONDARY MONEY MARKETS

The secondary money markets emerged during the late 1950s and the early 1960s as specialist dealing markets in alternative types of bills or paper. The first market was the 'Local Authority' bill market which arose following the closure of the earlier Public Works accounts which forced local authorities to borrow money directly from the markets for the first time. A market in local authority paper then quickly developed. This was followed by the 'Sterling Certificate of Deposit' (tradable receipts for underlying deposits), the general 'Certificate of Deposit' as well as the 'Inter-Company' and 'Inter-bank' Markets. These represent specialist wholesale markets within which financial institutions deal in particular types of debt or paper.

(2) BANKING MARKETS

The two main types of traditional bank in the UK have were the *commercial banks* and the *merchant banks*. Commercial banks have traditionally only accepted deposits (savings) from the public and advanced loans or credit on the deposit volumes received. With the emergence of the secondary money markets, commercial banks have been able to borrow much larger amounts of funds directly in the wholesale markets, including specifically the inter-bank market, which has allowed them to expand their loans and the asset side of their business. Commercial banking has then generally moved from being traditional 'deposit (or liability) based' to 'asset' (loans) based and then 'asset and liability management' based in which the banks continually monitor their lending commitments on the asset side of their balance sheets and funds available on the liability side. Commercial banks also now provide a range of other financial services for their customers including consumer finance, consumer credit, other payment cards and increasingly on-line internet based financial services.

Merchant banks historically arose before commercial banks and generally dealt in trade finance related instruments and provided a range of corporate capital market advice and support services. This is now generally referred to as *investment banking* which was the term introduced in the US to refer to investment or securities firms that were created following the separation of commercial banking and securities business under the Glass Steagall provisions of the Banking Act 1933 and which was passed after the Stock Market Crash 1929 and ensuing Great Depression. A merchant bank is strictly a hybrid UK institution that can undertake investment business as well as provide deposit account facilities usually for large corporate or government clients.

(3) EURODOLLAR MARKETS

The main international markets are the Euro syndicated loan market and the Eurobond market with n underlying deposit or inter-bank market. The syndicated loan market is an extension of the domestic commercial bank market and is consequently 'term loan' based. A number of additional information requirements and controls are nevertheless imposed on borrowers under the term loan agreements used while funds will generally be advanced by a group (syndicate) rather than by a single bank due to the amount and exposure involved. The reference to 'Eurodollar' generally means that the currency in which the funds are advanced (historically US dollars but subsequently Japanese yen, Euros, Swiss francs and other currencies) is separate from the currency of the country in which the debt is issued and traded (generally sterling in London).

The Eurobond market is a parallel security based market in which the borrowers (governments or large companies) issue debt instruments (bonds) into the market rather than borrow the money directly from a bank or group (syndicate) of banks. Once issued (in the primary market), the bonds will be traded (in an over-the-counter (OTC) secondary market). Eurobonds were originally issued for similar amounts and terms as syndicated loans although the advantage was that lower costs of funding were available depending upon the credit standing of the borrower. Early bonds also generally used for fixed interest rates. The Eurobond market has then developed a number of alternative floating rate and shorter duration instruments including Medium Term Notes (MTNs), Euronotes and Commercial Paper for periods of less than one year. While there has been a general decline in the syndicated loan as against the Eurobond market, this was compensated for by a corresponding expansion in Eurobond activity and syndicated lending remain a highly useful and flexible credit device especially in more complex financing situations.

(4) FOREIGN EXCHANGE

One of the other principal international market is the foreign currency market which provides for the purchase and sale of the currencies of different countries either on an immediate (spot) or future (forward) basis. London remains the main centre of the market which is conducted on an over the counter (OTC) basis.

(5) FINANCIAL DERIVATIVES

The other main types of financial instrument that may be traded are financial derivatives. These generally consist of futures, options and swaps which may either be dealt with on a formal exchange or OTC basis. The domestic derivatives market is based at the London International Financial Futures Exchange (LIFFE and now part of NYSE Euronext) although a number of financial derivatives were also traded through the OM Exchange (now part of the NASDAQ OMX Group) and London Stock Exchange. International derivatives (including derivatives products attached to international syndicated loans or bond issues) are generally dealt with on an inter-bank or OTC basis. The international OTC derivatives market is the largest financial market in the world and is currently valued in excess of between US$601**-684** trillion.

3. LONDON MARKET SIZE

Despite the changes that have taken place in international finance and financial markets in recent decades, the City of London remains one of the largest and most sophisticated markets in the world. London contributes 2.4% of national income, with financial services representing 19.5% of total income. The overall trade balance of financial services was £40 billion in 2009. The financial sector paid £53.4 billion in tax in 2009/2010 which was 11.2% of total government receipts. Financial services employs around 315,000 people in Greater London, including the city of London and Canary Wharf, and over one million people in total across the UK. There were over 12,000 businesses operating out of the City. The financial sector in total represents around 500% of GDP.

City of London

London continues to be important with regard to each of the following particular markets:[1]

(1) International Banking

London remains the principal international banking centre. UK banks held over £5 trillion in assets in 2010, which represented around 18.1% of the global total with US banks only holding around 11.6% It still conducts more international banking business than both Tokyo and New York (with 19% as against Tokyo 12%, New York 9%, Paris 8% and Frankfurt 7%). London is the principal centre for the Islamic finance, with 22, banks and five being fully Sharia compliant.

(2) Foreign Banks

London has the largest number of overseas or foreign bank operations than any international financial centre. There wer over 500 banks in the UK (with only 287 in New York, 101 in Tokyo, 231 in Frankfurt and 123 in Paris).

(3) Eurodollar Markets

London continued to be the largest centre for trading in Eurobonds with 70% of the market and $416 billion been issued in 2010 and the largest in terms of euro lending. 19% of cross-border lending is managed in the UK, which is larger than any other country.

(4) Stock Exchange

The London Stock Exchange remains the fourth largest formal stock exchange market in the world with $2,407bn equity market capitalisation (after NYSE Euronext $11,794bn, Tokyo Stock Exchange $3,277bn and NASDAQ $3,165 bn). The London Stock Exchange was the largest in terms of foreign equities with around 58% of total foreign dealings in 1997 (as against 24% in New York and 3% in Toyko, Paris and Frankfurt combined).

(5) International Equity Listings

London had the largest number of foreign companies listed with 551 (previously 526 with New York 356, Frankfurt 229 and Paris 193).

(6) Fund Management

London and Edinburgh remain the largest financial centres for asset management in Europe with a 29.5% market share and Euros 3,18bn under management. It is separately reported that over £4 trillion of funds are managed in the UK. 20% of total global hedge fund assets are managed in the UK.

(7) Foreign Exchange

London remains the largest foreign exchange market in the world with over $3.2tn being traded daily in early 2011. While it previously dealt with in excess of $637 billion a day (32% of the global total), this rose to around $1.8 trillion by 2010. London's figure compares with $904bn in New York,$312 billion in Tokyo, $266 billion in Singapore and $262 Switzerland. The total amount of funds moving around the world through financial markets each day is estimated to be in excess of US $4 trillion.

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[1] http://www.cityoflondon.gov.uk/Corporation/LGNL_Services/Business/Business_support_and_advice/Economic_information_and_analysis/Research+and+statistics+FAQ.htm#foreignexchange.

(8) Financial Derivatives

The London International Financial Futures and Options Exchange (LIFFE now part of NYSE Euronext) is the largest derivatives exchange in Europe and the third largest in the world after the US with 2.8 million and 1.27 tn euros in daily trading. London is also the centre of the international (over the counter) OTC derivatives markets with 45.8% of a $684 trillion market..

(9) Insurance

The London insurance markets are the largest in Europe and the third largest in the world with 8% of total worldwide premium income. Lloyd's of London is the largest insurers market and especially strong in the marine and aviation insurance. London is the largest issuer of marine insurance with 20% of the global market.

(10) Shipping

The Baltic Exchange deals in 50% to 66% of total international shipping freight (fixtures) with regard to dry cargo and 50% of the sale and purchase of ships globally. The Lloyd's Register of Shipping is the main ship classification society in the world while London remains the main international centre for shipping related finance. Half of the main banks that provide shipping finance are based in London.

(11) Gold Market

London remains the centre of the international gold market with in excess of $30 billion being traded daily.

(12) Commodities

The London commodities markets are among the largest in the world. The London Metal Exchange (LME), in particular, deals in over 90% of the world's metal turnover. 112 million metal contracts are traded in London every year. The LME and the London Petroleum Exchange (LPE) are also among the largest markets in the world for derivatives related commodity contracts.

4. CITY OF LONDON COFFEE HOUSES

One of the most curious and often ignored factors in the development of the City of London was the importance of the *'Coffee Houses'* as a place where merchants and financiers could meet and discuss trade and business. With many merchants not having their own office and office space being at a premium, coffee houses were often used as easily identifiable and usable meeting places. It was also easier to conduct business in a coffee house rather than in a tavern with the excess amounts of alcohol available tending to obscure judgement and opinion.

The practice also developed within the City of particular types of merchants or traders in goods or products from particular parts of the world meeting in certain coffee houses. The coffee houses then acquired a form of product or service identity of themselves. The proprietors or owners of the coffee house would then encourage this through, for example, the provision of relevant trade and other general newspapers or the development of communications links with other parts of Europe or the world. The coffee houses or, at least, their main participants often then subsequently formalised the venue with the creation of a market. Many of these were then subsequently developed into some of the leading financial and commodity markets of the world.

A number of the great London coffee houses can be regarded as London institutions in themselves although not generally given the same credit and attention as their successor markets. Many of the finest names, such as *Garraways's*, *St. Paul's*, *Jonathan's*, the *Jerusalem* and the *Baltic* have been forgotten although the markets which they assisted form continue as global leader's in their respective fields.

(1) London Stock Exchange

Possibly the most famous single market in the City is the London Stock Exchange which remains one of the most distinguished and leading stock markets in the world (http://www.londonstockexchange.com). The LSE originated in the dealings conducted between merchants in the early coffee houses in the City of London. With entrepreneurs requiring increasingly large sums of money to invest in overseas trading expeditions and long-haul shipping voyages, the practice developed during the 18th century of buying and selling shares in such ventures in coffee houses. The first joint stock company was originally set up in London in 1553 as the Muscovy Company. The East India Company was subsequently formed in 1600 and the Hudson's Bay Company in 1668. Other exchanges were also opened across Europe.

The oldest stock exchange was in Amsterdam which was opened in 1611. The Austrian Bourse was opened in Vienna in 1771 and trading on Wall Street also began in March 1792 although the New York Stock Exchange and Board was not set up until 1817.

Specialist intermediaries or brokers later emerged to act as introducers between the merchants and investors. A club was subsequently formed at *Jonathan's Coffee House* in 1760 by a group of 150 brokers to buy and sell shares. They had earlier been removed from the Royal Exchange for bad behaviour. The name of the club was subsequently changed to the ‘Stock Exchange’ in 1773. The original Deed of Settlement was entered into in 1802 and revised in 1875. This was replaced by a new Memorandum and Articles of Associated in 1986 when the Exchange became a private limited company after the London 'Big Bang' on 27 October 1986.

With the 'Big Bang' in 1986, ownership of firms was opened to non-Exchange members, minimum commissions were abolished and the earlier distinction between 'brokers' and 'jobbers' was abolished with all firms becoming dual capacity broker dealers. The earlier open ‘outcry’ market was replaced by screen trading with the introduction *SEAQ* (the stock-exchange automatic quotations system) and *SEAQ International* for international equities. While SEAQ provides a quote driven dealing system which is generally conducted by telephone, *SETS* (the Stock Exchange Electronic Trading Service) was introduced in October 1997 to create an automated matching service for orders that were placed electronically by prospective buyers and sellers. This is considered to provide better choice, increase transparency, lower costs, larger volumes and improved competition.

(2) Lloyd's of London

Lloyds originated in the coffee house maintained by Edward Lloyd in Tower Street within the City of London. This was used as a meeting place for merchants and insurers to discuss financial coverage on national and international contracts or transactions. The coffee house was first referred to in the 'London Gazette' in February 1688. Merchants and ship-owners met to discuss shipping business and agreements that could be entered into to insure or underwrite particular transactions. The ship owner would pay a premium in return for which the loss of the ship or cargo would be covered by one or more 'underwriters'. The person providing the cover would write his name at the bottom or under the agreement or policy. This led to the use of the reference to 'names' or 'underwriters' at an early stage. If the risk was large, a syndicate would be formed with all of the contributing names signing under a lead underwriter. The section within the coffee house or trading room or hall is still known as the *'Room'* even in the new Roger's Building (http://www.lloyds.com).

Edward Lloyd did not provide insurance cover directly but only the premises. To develop the facilities, he built a network of correspondents in sea ports throughout Britain and provided information on shipping business. This became the 'Lloyd's News' which acted as a regular shipping bulletin from 1696 onwards. Edward Lloyd also arranged for the auction of ships and ship equipment.

After the original coffee house fell into disrepute with many gamblers and speculators as well as legitimate underwriters taking part in its business, another coffee house known as *'the New Lloyd's'* was set up in 1769 by Thomas Fielding. Although a committee had been charged to find new premises, it was not until John Julius Angerstian arranged for two rooms to be let at the Royal Exchange that Lloyd's had its own offices. The Royal Exchange was then destroyed by fire in January 1838 although it was subsequently reopened in November 1844. It moved into Leadenhall Street in 1928 to acquire more space and subsequently into Lime Street in 1958. The current building was subsequently opened in November 1986 at '*No. 1 Lime Street*' on the site of its earlier Leadenhall premises.

Following the move to the New Lloyd's Coffee House, 70 underwriters and brokers each subscribed £100 for the purpose of building or acquiring new premises. Lloyd's became the property of its subscribers in 1771 although the Society of Lloyd's was not incorporated until Section 3 of the Lloyd's Act 1871 was enacted. Royal Charters had been granted to the Royal Exchange Assurance and London Assurance companies in 1720 although the individuals who operated through Lloyd's were exempt from the monopoly created. Further Acts were adopted in 1888, 1911, 1925 and 1951. Following the 'Fisher Committee' investigation into whether further statutory amendment was required, the Lloyd's Act 1982 was adopted. This was reconsidered by the Neill Committee which published its report in 1987 following abuses involving the 'skimming' of names' funds through bogus reinsurances and abuses of the premia of trust funds. Seventy recommendations were made which were subsequently implemented by the Society. A number of further changes have been brought into effect more recently.

(3) Baltic Exchange

The Baltic Exchange is one of the oldest and leading shipping exchanges in the world. It provides members with premises, facilities and rules of conduct to allow them to undertake shipping business, freight business and other related activities including the purchase and sale of ships and shipping equipment. The Baltic Exchange is in '*St. Mary Axe*' in the City of London (http://www.balticexchange.com).

The Exchange began in London coffee houses during the 17th century. These were used by merchants and ships' captains to arrange freight and shipping. The main coffee houses involved were the *Jerusalem Coffee House* and the *Virginia and Maryland Coffee House*. The *Virginia and Maryland* was subsequently renamed the *Virginia and Baltic* which referred to the geographic areas where its business was involved. This was subsequently shortened to the *'Baltic'* in 1810. *'Baltic Club'* regulations were produced in 1823 with a formal trading floor being constructed in 1903. This was destroyed with an IRA bomb in 1992 but reopened in St. Mary Axe in 1995.

The Baltic Exchange includes over 700 corporate members with 1,500 individual members from 45 different countries. Some members act as 'chartering agents' and represent merchants with cargoes to move. Others are 'owners' brokers' who represent the ship owners. Merchants and ship owners may also be direct members. Freight futures are dealt with through the Baltic International Freight Futures Market (BIFFEX). This was opened in 1985 and is based on the 'Baltic Freight Index' (BFI) which is published daily by the Baltic Exchange. This shows the weighted average 'freight rate level' and weighted average 'trip time charter hire level' each day in the dry bulk cargo shipping markets. A number of other indices are also traded.

(4) Gold Market

Gold would also have been traded in some of the early coffee houses although the price of gold was set by the Bank of England from the early 19th century onwards. The gold standard formally applied between 1815 after the Napoleonic wars until 1914. During this period, Britain was obliged to pay gold in exchange for its international debts at fixed prices. This was replaced by the gold exchange standard between the 1900s and 1920s with individual currencies being linked to sterling. These earlier arrangements were subsequently replaced by the Bretton Woods system of managed exchange rates between 1944 and 1973. This provided for the value of the US dollar to be fixed with regard to gold (at $35 per ounce) and with all other currencies being fixed to the dollar. The Bretton Woods system of fixed exchange rate standards was abolished following the closure of the 'Gold Window' by President Richard Nixon in 1971. International currencies have generally then floated since 1973 with various alternative mechanisms being adopted in particular countries to attempt to stabilise movements.

The formal London gold market was not opened until 1919 and was subsequently closed between 1939 and 1954. The bulk of the gold produced in the world, in particular, by South Africa as well as Russia, Canada, Australia and the United States is now dealt with through the London market. Since opening on 12 September 1919 at the offices of N. M. Rothschild & Sons in New Court, the gold market operates with the five market members meeting twice a day (at 10.30 a.m. and 3 p.m.) to 'fix' the gold price. The daily 'fixing' is the price at which the five market members are able to agree that they can satisfy outstanding buying and selling orders for gold. Meetings are chaired by a member of Rothschild's staff with members being in telephone communication with their offices. (Union Jack flags are lowered on the desks to confirm that agreement has been achieved on the 'fixing'.)

(5) Commodity Markets

In addition to the formal financial exchanges, London trading has also operated through a number of other smaller commodity exchanges, salesrooms and auction houses. Early trades would again have been conducted through coffee houses that then specialised in particular products or geographical areas. The main markets then subsequently develop include the London Metal Exchange (LME http://www.lme.co.uk) at 56 Leadenhall Street, the London Commodity Exchange (LCE) and the International Petroleum Exchange (IPE).

The LME opens between 11.45 and 12.30 p.m. and again between 3.20 and 5.20 p.m. dealing in major metals (including copper, zinc, lead, aluminium, aluminium alloy, nickel, silver and tin) which are allotted to two separate trading sessions of five minutes each. Separate *'kerb'* dealings could be conducted 20 minutes after each session. A quotations committee monitors the 'official' prices for spot and forward delivery which are used by producer countries to price raw materials. Physical delivery is made at registered warehouses through the presentation of LME warrants. LME registered warehouses are located in Europe, Singapore, Japan and the US in addition to the UK. The LCE trades 'soft' commodities including cocoa, robusta, coffee, raw and white sugar as well as agricultural commodities and the shipping freight rate index (BIFFEX). The LCE is also responsible for futures and traded options markets in these commodities. The LCE merged with LIFFE in 1966 (now operated through NYSE Euronext http://www.euronext.com).

The IPE provides a range of energy future and options in oil and gas contracts. It is the second largest in the world and the largest in Europe. The IPE supports benchmark prices in two-thirds of the world's crude oil and the bulk of middle distillate traded in Europe (http://www.ipe.uk.com). The IPE deals in the main energy contracts with Brent Crude futures and options, Gas Oil futures and options and Natural Gas futures. Trades are done through members or through member broking services. Trades are cleared through the London Clearing House (LCH.Clearnet). The IPE was acquired by Intercontinental Exchange in 2001 (http://www.theice.com).

(6) Clearing Houses

The two main clearing houses in London are the London Clearing House (LCH.Clearnet) and CREST. The LCH was originally set up as the *London Produce Clearing House Ltd* in 1888 to clear coffee and future trades. This was re-named the *International Commodities Clearing House Ltd* in 1973 and then the *London Clearing House Ltd* in 1991. LCH is now part of the Clearnet Group (http://www.lchclearnet.com) which clears a wide range of asset classes including bonds, repos and other securities, commodities, exchange traded derivatives, credit default swaps (CDS) and energy and freight contracts. Electronic clearing and settlement can also be effected through CREST which was set up following the establishment of a Task Force on Securities Settlement by the Bank of England in 1993. This provides a system for electronic settlement of registered securities. CREST is operated through CREST Co which is a recognised clearing house for the purposes of the Financial Services and Markets Act (see http://www.crestco.co.uk). CREST has also been responsible for the settlement of Government gilts and money market instruments since 1999. These were formerly dealt with through the Central Gilts Office (CGO) and the Central Money Markets Office (CMO) within the Bank of England. CREST now operates as part of Euroclear (http://euroclear.com).

5. CONTINUING IMPORTANCE AND RELEVANCE

Even with the significant dislocation of financial markets following the crises between 2007 and 2010, London remains a powerful international financial centre. International markets had been dominated by a series of significant continuing trends including globalisation, liberalisation, dis-intermediation, resurgent financial innovation and technological advance resulting in massive growth and expansion.

The new post-crisis era will now be characterised by an extended period of balance sheet restructuring and consolidation with higher levels of concentration and significant new levels of re-regulation in all market areas. These changes will nevertheless have an impact on all major financial centres as politicians and regulatory authorities across the world attempt to find a new market balance and regulatory relationship that allows the full benefits of the market system to be realised at the same time as public costs and damage are minimised.