The London Stock Exchange and the colonial market: a case study of internationalisation, 1855-1930

Bernard Attard
University of Leicester

‘Globalisation’ during the nineteenth century transformed well-established markets at the same time as it brought new ones into being. Often the institutional and organisational structures of existing markets were already highly developed. New entrants had little alternative but to conform to their regulations and norms. Equally, however, rising business volumes, growing numbers of participants, and the perennial problems of maintaining quality and enforcing contracts meant that traders had to adapt their own arrangements to new conditions.

The City of London’s rise as the centre of global finance, services and commodity trade before 1914 provides one of the most striking examples of the internationalisation of markets during the period, particularly as regards the London Stock Exchange. If we make North’s distinction between ‘institutions’ and ‘organisations’, this body can be viewed in two ways: first, as the regulatory organisation that controlled the formal institutional framework for trading securities in London; secondly, as the body of traders themselves – both brokers and dealers (‘jobbers’) – who comprised its membership. The Exchange’s importance in the trading of securities in the secondary market (i.e. the market for securities that had already been issued) has always been recognised; its roles in the marketing of new issues (i.e. the primary market) far less so. In a recent study of evolving financial markets and international capital flows, Davis and Gallman summarised the received view: ‘The raising of capital by the sale of new securities was not done through the stock exchange, but through a loosely structured collage (sic) of

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new issue houses, company promoters and brokers, underwriters, and advertisements. Yet for many of the overseas borrowers operating in London for the first time after 1850, it was impossible to sell securities without the Stock Exchange’s support because its members were themselves the market in the first instance. The issuing of debt, therefore, involved borrowers, contractors and agents in relationships with the Stock Exchange at two levels: first, by the need to meet its formal requirements for the quotation of new securities in the Official List; second, through methods of marketing debt that were heavily influenced by the norms and usages of its members. In either case, the encounters between the market and new entrants were marked by the same characteristics noted above: the working out of structural power and the pressures upon established organisations to adapt.

The Exchange’s institutional development and functions in a globalising capital market are explored here with reference to the activities of a particular group of borrowers from the beginning of London’s international expansion in the mid-1850s to the period of relative stagnation during the 1920s. From the mid-nineteenth century, Britain’s self-governing settler colonies raised increasing amounts of capital in the City. The seven Australasian colonies comprised an important sub-group. Between 1865 and 1914, they received a tenth of overseas investment raised by the public sale of securities in London, with governments and municipal bodies accounting for 65 per cent of this total. After 1914, Australasian public borrowers became even more prominent in the City, long after other overseas governments had started to look elsewhere. Thus, the London market in Australasian bonds was large and continuously active in some form from the mid-1850s to the Great Depression. Although it was not prone to spectacular default and lacked the prestige associated with foreign issues, its operation allows us to

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4 I. Stone, *The Global Export of Capital from Great Britain, 1865-1914* (Basingstoke, 1999), pp. 131, 393. The seven colonies were: New South Wales (NSW), New Zealand, Victoria, Queensland, South Australia, Tasmania and Western Australia. Private placements, purchases of securities originally issued overseas, bank lending and direct investments are excluded.
observe the interactions between a substantial group of borrowers, their agents, and the London Stock Exchange during a period spanning the City’s rise and relative decline as an international securities market. Such an archive-based case study is valuable for its own sake because it documents the essentially ephemeral activities of stock brokers and dealers. But it has a more general value by providing insight into the characteristics of the broader colonial market to which Australasia belonged and suggesting the ways in which the Stock Exchange’s functions in the foreign market might also be re-assessed.

The paper is in four parts. The first briefly reviews the organisational and institutional development of the Stock Exchange to 1914, with particular emphasis on the growth of its international business from the mid-nineteenth century. It also comments on the significance of the colonial and Indian markets, especially with reference to new issues. The following two parts of the paper use Michie’s distinction between the Stock Exchange as the creator of the market’s formal institutions and as a market place with its customary usages and informal modes of organisation. Part two, examines the significance of the most important formal powers exercised by the Stock Exchange and the ways in which its rules were developed in response to the influx of new securities during the 1850s and 1860s. The third part analyses the roles of member firms in the market for new Australasian debt. The final section briefly reviews the main factors affecting the relationship between the Stock Exchange and Australasian borrowers from the turn of the century to 1930.

The Stock Exchange, internationalisation and the colonial market

A securities market existed in the coffee houses of the City of London from the late seventeenth century, but until the end of the Napoleonic wars dealings were almost exclusively in the national debt (‘the public funds’) and related government-guaranteed obligations. During the eighteenth century, the market was loosely organised, dispersed in several parts of the City – including a purpose-built Exchange dating from 1773 – and

5 See note 2 above.
lacked a formally constituted membership. Nevertheless, learning much from securities trading in Amsterdam, its characteristic modes of dealing, settlement, and dissemination of price information by means of an ‘official list’ all came into existence during the period. The ‘separation of capacity’ between brokers – who acted as agents, executing buy and sell orders on behalf of clients – and dealers (or ‘jobbers’), who bought and sold on their own account, thus providing a market for the brokers, also came to be recognised, although it was not rigidly enforced. By the end of the century, however, brokers and dealers wished to regulate trade amongst themselves more effectively by restricting access to the market’s physical space and membership. In 1801, the London Stock Exchange was established as an organisation open only to elected subscribers ‘that not only provided a market for securities but also incorporated regulations on how business should be conducted’. Its government was divided between two groups. The Trustees and Managers, representing the proprietors, were responsible for the management of the Stock Exchange building (which was first opened in 1802 and later re-built several times on the same site) and fixed subscription fees. The Committee for General Purposes (the Committee) was chosen by the subscribers. It drew up and administered the Exchange’s rules, elected new members, and dealt with disputes. The first rule book was published in 1812.

Although business was still dominated by the national debt, the appearance of a variety of new securities after 1815 increased the Stock Exchange’s importance in the London capital market. During the early 1820s, a short-lived boom in Latin American and other foreign government loans led to the opening of a Foreign Funds market in a room adjacent to the main English market, which soon also accommodated dealings in the shares of several new companies promoted later in the decade. The market soon languished when several of the borrowers went into default and many of the new companies failed. But ‘the episode of the Foreign Funds market … had been a watershed for the London Stock Exchange’. In 1835, it was merged with the main securities market

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7 Ibid., p. 35.
8 Ibid., p. 60
and later the foreign room provided space for the dealers in railway shares who migrated there during the railway manias of 1830s and 1840s.

‘In 1850’, Michie writes, ‘the London Stock Exchange was the biggest and most important of its kind in the world’.9 But it was only beginning its transformation into a truly international market. From mid-century, British capital exports started their remarkable surge and, with the simultaneous expansion of British trade and service enterprise, the City became ‘the undisputed financial centre of the world’.10 Although trading in the national debt and the shares of domestic utilities remained important, the issues of overseas governments and companies operating abroad, especially railway stocks, occupied an increasingly prominent place. Apart from the cosmopolitan nature of the stocks and shares floated and circulating in London, there were several other ways in which the Exchange developed into an organisation whose trading relationships crossed national boundaries and straddled the globe. The market’s size and liquidity attracted foreign investors, both directly and as the clients of the foreign banks, investment houses and brokers operating in the City. As communications advanced, specialist brokers engaged in a large arbitrage business with the Continent and the United States. Links to the money and foreign exchange markets were consolidated by the Exchange’s dependence on short-term credit and the facilities its members provided for dealing in international securities. This was all possible, in turn, because of the Exchange’s institutional characteristics: its openness to new members from a variety of backgrounds (between 1850 and 1905, membership rose from 864 to 5,567);11 its flexibility over commissions; its willingness to list new issues (the number quoted increased from less than 500 in 1850 to more than 5,000 by 1913);12 its responsiveness to new technology and the periodic needs to reorganise the market’s physical space; and – in contrast with European bourses – the almost entire absence of government regulation that left it

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virtually a free market. Each of these factors contributed to the Exchange’s success until the First World War, inspiring the New York agent of one broking house to declare in 1911: ‘The London Stock Exchange is the only really international market of the world. Its interests branch over all parts of our globe’.  

Colonial borrowers first appeared in London at the beginning of the mid-Victorian boom, making their own contribution to the acceleration of British capital exports after 1850. With India in a category of its own, the other colonies could be divided into two groups: crown colonies, governed directly by Britain, and the British migrant communities in North America, Australasia and southern Africa which began to receive self-government from the 1840s. The desire of the settler societies to participate in global growth as suppliers of raw materials, minerals and food led to considerable public investment in railways and other forms of social overhead capital which was financed predominantly by loans issued in London. Although by 1913, the nominal value of the securities of all empire governments quoted in London was a quarter that of foreign governments, from the mid-1870s capital subscribed to colonial government issues generally far exceeded the sums absorbed by foreign governments (table 1 and appendix). Over the entire period 1865-1914, the governments of the settler colonies and India accounted for just over half of the investment in overseas government bonds, and 15 per cent of all British capital exported through the London market. Of the amounts raised by this group, the seven Australasian colonies claimed two-fifths. After 1850, therefore, the colonial bonds appearing in London contributed their own share to the internationalisation of the securities market, creating a need for institutional and

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16 All statistics calculated from Stone, Global Export of Capital and exclude borrowings by provincial and municipal bodies. ‘Settler colonies’ refers to those in Canada, Australia, South Africa and New Zealand.
organisational change no less than the increased volume of foreign government obligations that now circulated in the City.

![Figure 1. Capital subscribed to issues by major colonial governments as a proportion of total subscriptions to overseas government issues, 1865-1914, per cent.](image)

Source: Appendix

**Institutions**

The most important institutional power exercised by the Stock Exchange over governments and companies wishing to raise capital in London was its right to decide whether the price of a security was quoted in the Official List. Although exclusion did not prevent members from dealing in a security, a quotation brought it within ‘a publicly recognized market’, providing the information about its current price needed by investors before they were willing to hold it and lenders were prepared to accept it as collateral. In February 1862, a broker complained to the Committee about some New South Wales debentures that had been originally sold in the Colony but had failed to obtain a listing in London: ‘Our Principals … having received them as remittances, find themselves placed,

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by your decision, in the position of holders of unavailable assets’. As the volume and variety of securities traded in London increased, the public also came to regard a Stock Exchange listing (however erroneously) as an assurance that a borrower or company met minimum standards of credit-worthiness. Finally, by prescribing the ways in which a bond eligible for listing should be sold, the Committee could impose order on the market and minimise risk to its members. The development of the quotation rules, therefore, was the most important way in which the Stock Exchange adjusted its institutional arrangements in response to the dramatic changes in the securities market after 1850.

Little is known, however, about the nature and timing of this process.

From the outset, both the significance of a Stock Exchange quotation and the power the quotation rules conferred on the Committee were clear to those involved in marketing Australasian loans. In 1862, after several changes to the listing requirements for government bonds, the secretary of Union Bank of Australia (henceforth, the Union Bank) explained to the bank’s chief officer in the colonies:

The latter body [i.e. the Stock Exchange] may assume to themselves undue powers … but as the Committee carry general investors at home with them (for such parties may well seek to know what extent of obligations particular Governments may incur, their correctness, resources, &c., and they depend on the Stock Exchange Committee to ascertain at least sufficient of these particulars to justify the quotation of Debentures in their official list), they – the Committee – in making investigations and requirements, do not really prejudice, but probably support the interests of such Colonial Governments as look for, and may be entitled to, assistance from our money market.

The importance of the inclusion of Australasian bonds in the Official List was equally obvious. In 1856, Edward Barnard, the Crown Agent for Colonies, sought a quotation for an issue of South Australian bonds so ‘that these securities will become gradually more

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18 Sewell Brothers to Committee of Stock Exchange, 25 February 1862, MS18000, 22A/976, Guildhall Library, London (GHL).
19 Saunders to McMullan, no. 788, 24/27 October 1862, U/120/16, ANZ Group Archive, Melbourne.
known and appreciated by the public’. But the position and prominence of the prices of colonial bonds generally also mattered. Early the following year, Barnard applied successfully to the Committee to have these removed from the miscellaneous section and marked under a separate heading, as it ‘would make them more generally sought’. By granting formal recognition in this way, the Committee also effectively brought a distinct colonial market into existence.

By the 1850s, the Stock Exchange had, in fact, already adopted its most important rule affecting both foreign and colonial public borrowers. From 1827, the Committee of the foreign stock exchange had refused to recognise bargains in the new loans of governments that were in default of existing obligations to their creditors until ‘such Government[s] shall have effected and carried out some arrangement with the holders of such Stock, Bonds, or other Securities’. The rule was taken over by the main Stock Exchange after the foreign market’s demise and was far more effective than the efforts of aggrieved bondholders in ensuring that defaulters wishing to raise more capital eventually came to terms with them. But, as colonial governments soon discovered, it was also a potent instrument in the hands of third parties wishing to put pressure on borrowers with whom they were in dispute. In early 1859, the success of the first important Australasian loan in the City – a public offer by the gold-rich colony of Victoria of £1 m. of a total £7 m. debentures authorised for sale in London (the ‘seven million loan’) – was threatened by the English shareholders of the Geelong and Melbourne Railway company. These investors were negotiating the line’s sale to the colonial government and objected to the loan’s quotation because they had not received their most recent payment of guaranteed interest on their paid up shares. When the Committee deferred its decision, the chairman

20 Barnard to Torrens, 11 December 1856, Parliament of South Australia, Documents ordered to be printed, 1857-58, no. 126.
21 Barnard to Colonial Secretary, South Australia, 11 March 1857, ibid.
23 Stock Exchange, Minutes of the Committee for General Purposes, 17 January 1859, MS14600/25, ff. 72-77, GHL.
of the Union Bank, which was part of the consortium of six contracting banks acting as the loan’s agents, immediately wrote to Melbourne: ‘I fear we are not even yet fully aware of the injury they have done in producing hesitation on the part of the Committee of the Stock Exchange’. Donald Larnach, the managing director of the Bank of New South Wales and chairman of the London committee of the contracting banks, was even more direct, urging the Union Bank’s secretary: ‘Pray write out … that the Geelong & M[elbourne] Railway may be bought up’. As on later occasions when private investors interfered, expediency soon outweighed principle when a listing was concerned.

In the end, the Committee decided to mark the loan after vigorous protests from several of the brokers who ‘were all large subscribers’ once it was established that the shareholders were not automatically entitled to the guaranteed interest. But Victoria’s government also soon agreed to purchase the Geelong line, putting ‘an end to the shabby attempts to depreciate the credit of this colony’, and thereafter the possibility of obstruction by interested parties in London hung always over potential borrowers.

During the 1870s, the English shareholders of the Tasmanian Main Line Railway actually succeeded in opposing a listing of a Tasmanian loan during a similar dispute with a colonial government, with the inevitable consequences. The manager of one of banks acting as joint agents reported bluntly: ‘The effect of this refusal to grant a quotation is to prevent almost entirely dealing in the Bonds; so that the Brokers who usually subscribe to these Loans in the first instance … are left with large amounts on hand’.

The failure to obtain a quotation, even when no loan was in default, could also have more far-reaching consequences. Between 1863 and 1867, the Committee’s refusal to list issues by New Zealand’s provincial governments because of the borrowers’ obscurity and doubts about their credit-worthiness led to the abolition of their separate borrowing power by the colonial government and the consolidation of their loans into a

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24 Saunders, for J.J. Cummins, to Blackwell, 17 January 1859, U/120/10, ANZ.
25 D. Larnach to Saunders, 17 January 1859, ibid.
26 Stock Exchange Committee, 31 January 1859, MS14600/25, ff. 87-90; ‘Victoria (From Our Own Correspondent) Times, 2 April 1859, p. 7.
27 J. Tulloch to Colonial Treasurer, 5 July 1878, Tasmania, Appendices to the Journals of the House of Assembly, 1878, no. 39, ‘Loan, £3,000,000 … Correspondence’.
single colonial stock. By denying a listing, the Committee also acted on the market’s preference for large, marketable issues secured on the revenue-raising powers of a central government. Although the quotation of Canadian bonds was never in question, the same market preference supplied arguments for the confederation of the British North American colonies in 1867.

The refusal to recognise particular borrowers, however, was exceptional. More typically, the Committee responded to the enormous increase in the number of securities entering circulation by tightening the listing requirements to minimise the possibility of fraud, increase the information available about an issue, and regulate the ways in which new securities were sold. In early 1859, it adopted a new rule formally defining the conditions on which foreign and colonial loans could be quoted, including the requirement that the contractor or agent provide information about the amounts issued to the public and that their brokers attend the Committee meeting at which a listing application was considered. The reasons for the new rule are not clear, but it was amended almost immediately because of specific difficulties in connection with Australian bonds. With the exceptions of Victoria’s seven million loan and some New Zealand issues, the most common way in which these were introduced in London was by private negotiation through the agency of a broker, with the bonds either being sold for the first time or re-sold after remittance by the original buyers in the colonies. Remitted bonds, however, frequently lacked information about where coupons were payable or the total amount authorised. In August 1859, after a disagreement between a broker and a jobber over whether some New South Wales debentures were negotiable in London, the Committee instructed the Secretary of the Railway Department ‘to ascertain the amount

29 Cain and Hopkins, British Imperialism, pp. 233.
30 Stock Exchange Committee, 7 March 1859, MS14600/25, ff. 113-14, GHL.
of Stock issued or authorised to be issued by the different Colonial Governments and the Acts under which such Stock has been created’. 32 Shortly after, it amended its new rule for the quotation of government bonds so that they could now only be marked if they were signed by the financial agent in England, specified the authority and amount of the loan, and listed the numbers and denominations of the entire issue. 33 Just over two years later, the rule was again changed because of the Committee’s objections to the sale of new issues by private negotiations. In October 1862, following ‘a long controversy’ with the Oriental Banking Corporation over its application for a listing of a New South Wales loan for £1.7 m. (which, like earlier issues, would ‘only be used as the money may be required’), the Committee resolved ‘that all Colonial bonds issued in this Country should be publicly negociated (sic.) by tender or otherwise’. 34 When the 1859 rule was actually amended, the new condition applied to all foreign and colonial bonds whose dividends were payable in England. 35 The Union Bank’s secretary, who had only just under ‘special circumstances’ obtained a quotation for a colonial issue of Queensland debentures, explained the Committee’s motives to the Brisbane manager, emphasising that the Stock Exchange had been ‘very anxious to induce Colonial Governments to desist from local sales of such Debentures as may be intended for subsequent disposal here, and to prevent financial agents in London from effecting private sales’. 36

Although governments were still able to obtain quotations for colonial issues, the 1862 amendment brought an end to private sales as a method of marketing new issues in

32 Stock Exchange Committee, 19 and 29 August 1859, ff. 233-34, 236-37, ibid.
33 Stock Exchange Committee, 26 September 1859, ff. 251-52, ibid.
34 Secretary to Manager, Brisbane, 23 October 1862, U/120/16, ANZ; Steer Cuerton & Lawford to Committee for General Purposes, 15 October 1862, MS18000, 22A/976, GHL; Stock Exchange Committee, 25 August, 6 October, and 16 October 1862, MS146000/27, ff. 59, 78, 84, GHL.
35 Stock Exchange Committee, 22 October 1862, ibid., ff. 89-90.
36 Stock Exchange Committee, 6 October 1862, ibid., f. 78; Saunders to Messrs Foote & Adams, 6 October 1862, MS18000, 22A/973, GHL; Secretary to Manager, Brisbane, 23 October 1862, U/120/16, ANZ. The Queensland debenture certificates had lacked the information about the loan issue required by the Stock Exchange.
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London, even when the sums involved were trivial.37 Borrowers now converged on the practice of advertising large loans and inviting competitive tenders which were opened publicly on a nominated day. This had been preferred by Victoria’s agents when they sold the seven million loan in instalments between 1859 and 1862, and also broadly suited the brokers and jobbers who made up a good part of the market. Until the end of the century, the only remaining alteration to the way in which new colonial issues were offered came about largely because of direct pressure from the Stock Exchange’s members, with the Committee only reinforcing a process that was already underway. During the mid-1870s, all the Australasian colonies, except Victoria, abandoned the practice of keeping the minimum price of new loans secret because the Stock Exchange refused to bid. Only the persistence of a minority of issuers, including the Crown Agents, prompted the Committee to express a view. In this instance, however, it was sufficient for it to publish a memorandum condemning the ‘exceptional practice’ as ‘very undesirable’, and questioning whether ‘it should not constitute a bar to Official Quotation’, for the use of secret minimums to end.38

By the 1870s, a balance had apparently been struck between the interests of the Stock Exchange, colonial borrowers and the general investor. Subsequently, the formal institutional innovations most affecting Australasian loans, notably the Colonial Stock Acts of 1877 and 1900, were legislative and originated outside the Stock Exchange. For the rest of the century, the system by which colonial loans were offered and absorbed remained unchanged. It took shape within an institutional framework defined by the Exchange’s quotation rules. But both the rules and the methods of selling colonial debt were influenced equally by the customary practice and forms of organisation of the Exchange’s membership. It is to the interaction between them and Australasian borrowers that we now turn.

37 In 1870, South Australia was forced into a pointless public offer of £30,000 debentures after the Committee refused to list them if they were placed privately; Stock Exchange, 17 June 1870, MS14600/34, f. 170, GHL; Times, 15 July 1870, p. 10.
38 Stock Exchange Committee, 31 January and 4 February 1876, MS14600/40, ff. 264, 275, GHL; memorandum, by order Francis Levien, Stock Exchange, 7 February 1876, enclosed with Larnach to Smith, 18 February 1876, GM/204/12, Westpac Archive, Sydney (henceforth: Westpac).
Market

From the commencement of sales of Australasian bonds in London in the mid-1850s, Stock Exchange members were employed to advise loan agents and retail securities amongst their clients. This was obviously necessary when issues were sold by private negotiation, but the brokers were also relied upon to encourage their clients to tender when offers of sale were made by public advertisement. Two examples are sufficient to make the point. During the 1850s, Mullens Marshall & Co, the brokers to the Bank of England and the Commissioners for the Reduction of the National Debt (and, therefore, one of the most prestigious Stock Exchange firms in the City), was employed separately by the Crown Agent, the Bank of New South Wales, and the London committee of the six contracting banks to place South Australian, New South Wales and Victorian bonds. 39 As regards public offers, of the five instalments of Victoria’s seven million loan between 1858 and 1862, Stock Exchange members submitted bids for between 86 to 98 per cent of the amounts sold. 40 The necessity of the Exchange’s support for public offers was recognised by the customary quarter per cent commission paid to members on all successful tenders. One of the first decisions of the London committee of the contracting banks was ‘that all members of the Stock Exchange, whether dealers or brokers, be paid the usual brokerage’. 41 A decade later, when the Bank of New South Wales offered its first loan for New South Wales after taking over the colony’s agency, Larnach, the managing director in London, was ‘waited on by some of the Brokers of the Stock Exchange’, who announced that ‘they would take no part in it unless we would pay them the full quarter per cent always allowed to Brokers’. 42 His agreement ‘was a good move on our part, for it enlisted in our favour every man on the Stock Exchange’. But the Stock

39 E.g. Barnard to Colonial Treasurer, South Australia, 1 September 1856, South Australia, Documents, 1857-58, no. 126 ; Minutes, London Committee of Six Australian Banks’, 23 December 1858, Victoria, Papers Presented to Parliament (PP), 1859-60, C2.
40 See the statements of account of each of these operations printed in, Vic., PP, 1859-60, A45 and C2; 1860-61, no. 57; and 1862-63, no. 16.
41 Minutes, London Committee, 30 December 1858, Vic., PP, 1859-60, C2.
42 Larnach to Smith, 30 October 1868, GM/204/4, Westpac.
Exchange’s support could be equally important when bonds were being negotiated privately. After the contracting banks were instructed to place £100,000 of the seven million loan in this way, Mullens agreed to seek the assistance of other brokers by splitting their commission with them.\(^{43}\)

But the roles played by Stock Exchange firms in making the market for securities in London meant that they went well beyond acting simply as intermediaries between agents and the investing public. On the floor of the Stock Exchange, the dealers who stood ready to buy or sell the particular securities in which they specialised provided the liquidity and price signals needed by brokers and their clients. In the first instance, it was they who purchased the greater proportion of new colonial bonds coming onto the market, whether they were privately negotiated or offered publicly, and subsequently retailed them to investors \textit{via} the brokers in response to general demand. In 1862, the Oriental Bank Corporation’s brokers, Steer Cuerton & Lawford explained to the Committee with respect to the private placements of New South Wales loans: ‘the Bank only sell the bonds on the demand of the dealers’.\(^{44}\) Shortly before, the London secretary of the Bank of Australasia, one of the contracting banks, wrote to Melbourne with reference to the seven million loan: ‘A large number of the subscribers are jobbers, who are not permanent holders, but who sell again at a small profit to the public’, adding for good measure: ‘it is well known that, unless any Foreign loan is favorably (\textit{sic.}) received on the Stock Exchange, it can never be placed successfully upon the market’.\(^{45}\) Until the 1860s, some of the leading jobbing firms even negotiated directly with loan agents. In this way Prance & Wedd purchased considerable amounts of Queensland stock from the Union Bank.\(^{46}\) It was no doubt with this firm in mind that the latter’s secretary commented in 1865: ‘our chief difficulty after all, in certain times, with Dealers, is one rather of \textit{will} than of price’.\(^{47}\)


\(^{44}\) Stock Exchange minutes, 16 October 1862, MS14600/27, f. 84.

\(^{45}\) Milliken to McArthur, no. 1145, 17 February 1860, A/51/13, ANZ.

\(^{46}\) E.g. Saunders to Manager, Brisbane, no. 498, 10 February 1866, U/120/27, ANZ and ‘Account sales of debentures, inscribed stock and treasury bills’, RSI252, Queensland State Archives.

\(^{47}\) Saunders to Manager, Brisbane, no. 473, 26 October 1865, U/120/26, ANZ.
The unpopularity with the jobbers of private sales of new issues while large amounts of unsold stock still overhung the market was probably one of the main reasons why the Committee to refused to list such loans after 1862. Larnach warned the chairman of the contracting banks in 1859: ‘We may certainly get a higher price for a small amount; but it is quite possible that dealers and others, who make a profit by buying in large amounts, may become disgusted, and at times we may be unable to sell at all’.

Cummins, the Union Bank’s chairman, was equally adamant in the early 1860s: ‘the plan of selling in small portions is not wise; it tends to keep back the biddings from the Stock Exchange, and to make the operators in the money market unwilling to deal with the bonds’.

The adoption of the tender system by all Australasian borrowers from the 1860s was thus as much a response to the needs of the dealers as a change imposed by the Stock Exchange Committee. At the same time, brokers and jobbers adjusted their own practices to allow them to operate more effectively in what was now a discrete, clearly defined colonial market. Even during the contracting banks’ operations to sell the seven million loan, some broking firms were aggregating large numbers of individual tenders and consequently bidding for substantial amounts of stock. By the mid-1870s, loan agents were describing the investors and organisations who submitted tenders as a body through particular brokers as ‘syndicates’. The word came into vogue earlier in the decade in connection with the methods used by some contractors to market foreign loans. In 1873, *The Economist* defined it as: ‘an association of persons to carry out a specified business object’. As such, syndicates could take many forms. The term was used in the colonial market by analogy with the groups paid by loan contractors and company promoters to guarantee the sale of all or a large part of a new issue. These were sufficiently commonplace by the early seventies for *The Economist* to devote an article to them and,

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49 Cummins to McMullen, no. 885, 26 November 1863, U/120/18, ANZ.
in 1875, a parliamentary Select Committee on Foreign Loans gave considerable publicity to their organisation and abuses.\(^{52}\)

Syndicates in this original sense were also created to clear colonial bonds off the market, and in one instance to underwrite a new issue. Significantly, on each occasion Stock Exchange firms were involved. In 1874, when Larnach advised that ‘the greater portion of the last New Zealand Loan … and the Canadian Loan … is held by the Syndicates’, he was referring in the former case to five broking firms who had, according to the Union’s London manager, received a ‘concession of 1%’ to take the unsold balance of a £1.5 m. issue.\(^{53}\) But the payment of such commissions was unusual. Despite confusion amongst some observers, the distinguishing characteristic of syndicates in the colonial market was that they were organised voluntarily by Stock Exchange firms acting independently of loan agents.\(^{54}\) Profits arose solely from the difference between the original purchase price of debentures and the amounts for which they were eventually sold. In 1883, referring to the failure of a Victoria loan for £4 m., The Financier offered the best description of the operation of these ‘useful intermediaries’:

> For many years past, Loans of this sort have been taken in the first instance not by the investing public but mainly by financial associations, “syndicates”, and so forth, who have sought to make their profit by “nursing” the new Stock and – sometimes after the lapse of a considerable interval – parcelling it out amongst

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\(^{53}\) Larnach to McArthur, 2 September 1874, Vic, PP, 1875-76, no, 5; Bramwell to Brisbane manager, 11 June 1874, U/120/60, ANZ.

\(^{54}\) *The Economist*, which was unremittingly hostile to ‘these cliques’, persistently conflated the two types of syndicate, e.g. ‘The Financing of the South Australian Loan’, 7 February 1891, pp. 168-69; for ‘cliques’, ‘The Lesson of the Victorian Loan’, 18 April 1891, p. 494. Hall also believed the two forms of syndicate were identical, *London Capital Market*, p. 101.
investors in proportion as the demand has made itself manifest through the market.  

From the 1870s, the syndicates coalesced around the handful of Stock Exchange firms that specialised in colonial securities and made a substantial part of their profits from speculative trading. In January 1875, the South Australian Agent-General, Francis Dutton, reported his negotiations with the broker William Westgarth, who ‘came to me as a deputation, representing not alone his own business connexions, but also a syndicate of other brokers and their connexions, who are foremost in tendering for Colonial loans’, and explained:

You can count off on the fingers of one hand the names of all the brokers upon whose countenance and support the floating of every Colonial loan depends. The Stock Exchange, as a body, don’t go in for Colonial loans – there is little to be made out of them. They leave the tendering of the bulk to the four or five who get up the necessary information on Colonial subjects, and obtain such share for their own connexions from the tenderers, on the same terms, afterwards.

As Dutton suggested, at the core of the syndicates for colonial loans were four of five broking firms that remained prominent for the entire period during which they functioned. Apart from Westgarth, the key operators were J & A. Scrimgeour, Brunton Bourke and Linton Clarke. Their importance, and that of the support they mobilised,

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55 *Financier*, 10 January 1883; cutting in, VPRS 1225/1, 83R/10115, Public Record Office Victoria (PROVic), Melbourne
56 F. Dutton to Treasurer, 20 January 1875, in SA, *Documents*, 1875, no. 98, ‘Sale of Bonds and Consolidation of Bonded Debt’
57 These four appear most consistently in tender and syndicate lists, as well as negotiations with agents, from the 1860s to the end of the 1880s. In 1885, they comprised; ‘The Stock Exchange Syndicate [that] were particularly fortunate, having hit the lowest figure at which allotment was made’, successfully bidding for £2.4 m. of a £4 m. Victoria loan, R. Murray Smith to Treasurer, 22 May 1885 and ‘Victorian Govt. 4% Loan 1885. Tenders accepted’, VPRS1225/2, 85R/6277, PROVic.

-18-
was such that Larnach assured the New South Wales colonial Treasurer: ‘in the success of all loans, dependence can be placed in the London Stock Exchange only’. 58

The Stock Exchange syndicates came to play such a role because the tender system appealed in the first instance to a speculative market rather than general investors, who lacked the expertise to judge what to bid and were unlikely to tender for sufficient amounts during the short period a new issue was open. In 1864, the Union’s chairman explained as much to the Bank’s Australian Manager: ‘investors seldom form more than a very small portion of those tendering; in almost every case they wait to see the lowest point to which a public sale may reduce the price’. 59 Even when the seven million loan was the only large Australasian issue on the market, it was essential ‘to have a small margin between the market value and the reserve price placed on the Bonds, as an inducement to subscribers to come forward’. 60 In 1874, the Union’s London manager was only repeating well-worn advice when he advised the Brisbane office: ‘unless the limit be a little under the market rate we should entirely lose the support of the Jobbers and Dealers, a very powerful element on the Stock Exchange, without whose assistance no large Loan can be successfully floated’. 61 Larnach was equally adamant about the need to make the issue price attractive:

[T]he Stock Exchange has lost so much by all the Australi[a]n loans of late that nothing short of a turn will induce them to come to our assistance. I think you know that, in launching a loan, no dependence whatever can be placed in getting offers from the public. 62

As we have already seen, the Stock Exchange’s refusal to tender unless speculative profits were possible was the most important reason why secret minimums were

58 Larnach to Lloyd, 11 January 1875, GM/204/11, Westpac.
59 Cummins to McMullan, 27 November 1865, U/120/26, ANZ.
60 Milliken to McArthur, 17 February 1860, A/51/13, ANZ.
61 Bramwell to Manager, Brisbane, 10 July 1874, UBA/120/60, ANZ.
62 Larnach to Smith, 7 November 1878, GM/204/14, Westpac. The ‘turn’ was the difference between the prices for which a security was bought and sold.
abandoned during the early 1870s. Westgarth and others asserted that information about a loan’s reserve price would encourage the general public to bid.63 But by placing the onus on borrowers to publish attractive terms, the Stock Exchange itself was clearly the principal beneficiary. Significantly, when the last Victoria loan advertised under a secret minimum failed, Larnach reported: ‘The Stock Exchange say that had we declared the minimum price, the loan would have been taken the first day’.64

Provided loans continued to be attractively priced, the syndicates organised by a small circle of brokers effectively underwrote new Australasian issues, just as they did in the colonial market generally.65 In the easier credit conditions of the 1880s, when investment in Australia boomed, successful applications by general investors sometimes exceeded allotments to the syndicates by a considerable margin, but the latter could always be relied upon to make up any shortfall. Their informal nature, however, meant that they were fundamentally unstable. If loans were priced too keenly, credit dried up, or participants could not unload, they ceased to function altogether. The weakening of Australian credit after 1889, combined with the wider impact of the Baring crisis in the City in the following year, had precisely this effect. During the first half of 1891, no syndicates bid for new issues by South Australia, Victoria and Queensland, which all failed.66 Soon after, the New Zealand Agent-General observed: ‘The syndicates that a few years ago were always ready to make wholesale purchases of a large quantity of stock with the view of retailing it out to small investors now no longer exist’.67

The 1890s, in fact, marked the transition to a more formal system of underwriting in the London capital market which, as far as colonial borrowers were concerned, continued to be controlled by a small number of Stock Exchange firms. ‘Syndicates’, in

63 A. Michie to Chief Secretary, 4 September 1874, Vic, PP, no. 5, ‘Railway Loan’.
64 Larnach to Lloyd, 28 October 1874, GM/204/10, Westpac.
65 This was probably also true of Indian loans offered by tender.
67 W. Perceval to Premier, 9 June 1892, New Zealand, Appendices to the Journals of the House of Representatives, 1893, B-1, p. 5.
some form, soon reappeared in the markets for Indian and colonial securities. Stock Exchange firms also continued to bid individually for large lines of stock. In 1892, the leading jobber, Wedd Jefferson – a lineal descendent of Prance & Wedd, which had figured so prominently during the 1850s and 1860s – was the sole purchaser of £144,000 of the failed South Australian loan of the previous year. But the payment of commissions by company promoters and loan agents to guarantee the sale of all or part of a new issue if the public failed to subscribe in sufficient numbers also became widely accepted practice and was finally given legislative sanction by the Companies Act of 1900. Underwriting of this kind was a return to an older form of syndication stripped of its former abuses. It was employed for domestic as well as overseas issues, and the initiative came from company promoters and loan agents, rather than the Stock Exchange. Its introduction in the colonial market was thus part of a general trend. The reappearance of Australasian borrowers in the City around the turn of the century, after most had refrained from raising new money for several years, also coincided with the passage of the new Companies Act. Having provided substantial financial support during the early 1890s, their agents insisted on underwriting unless borrowers were prepared to offer very attractive yields. The need to agree an issue price with the underwriter in advance also meant that subscriptions, rather than invitations of competitive tenders, became the norm.

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69 These came to £144,000 of stock in total; telegram from Agent-General, 16 July 1892, SA, Printed Documents, 1892, no. 72; Agent-General, South Australia, to Glyn Mills Currie & Co, 24 March, 2 and 12 May 1892, GM/210, Royal Bank of Scotland Archive.
71 Hall, London Capital Market, pp. 78-79; Morgan and Thomas, Stock Exchange, p. 89
For loan agents, underwriting eliminated risk in the crowded Edwardian capital market. In contrast with the old system of stockbroker syndicates, underwriters were obliged to take up any unsubscribed portion of a loan. The arrangement of the underwriting in the colonial and Indian markets, however, remained firmly in the hands of Stock Exchange firms. One of these, J & A Scrimgeour, the broker to the Crown Agents and a key syndicate broker during the 1870s and 1880s, underwrote New Zealand loans. Mullens Marshall, the Bank of England’s broker, had also been active in colonial securities since the mid-nineteenth century. The third, R. Nivison & Co., established itself during the 1880s with close connections to the colonial market and filled the vacuum left by the disappearance of several of the other syndicate brokers after 1890, eventually acquiring the monopoly of the underwriting of Australian, South African and Canadian loans, and cooperating with Mullens over Indian issues. In 1911, a German scholar, Schilling, referred to these three firms when he observed in a study of the colonial market: ‘with the fixed-price issue, the role of the broker comes to the fore’. After the First World War, the governor of the Bank of England described them as the ‘issuing brokers’.

**Institutions and market, 1900-30**

The issuing brokers represented the furthest development of a pattern of specialisation in which Stock Exchange firms acted as the most important links between colonial borrowers and the wider capital market. As part of this process, stockbrokers and jobbers came to exercise greater control over how, when, and on what terms new issues were made. After 1900, no colonial government could float a loan until its price had been agreed with the underwriter. Moreover, just as during the 1870s and 1880s, when the

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75 Montagu Norman Diary, 14 and 27 February 1928, ADM34/17, Bank of England Archive (BoEA).
syndicate brokers provided the most efficient means of distributing colonial securities to
the rest of the Stock Exchange, after 1900 the underwriters performed a similar function.
In both cases, Stock Exchange participation was based on trust in the expertise and
judgement of the specialist brokers concerned. According to a former South Australian
Agent-General, A. A. Grainger, in 1908, Stock Exchange firms were still the main sub-
underwriters of Australian loans: ‘Jobbers ask directly a loan is coming out: “Is Nivison
in this?” If he is not they will not touch it’.76

With the connections between the issuing brokers and their sub-underwriters well-
established, and all the critical negotiations taking place beforehand, the floating of new
Australasian and other colonial loans became virtually a routine matter. The effective
monopoly of three firms, however, could be viewed as another example of the restrictive
practices becoming more common in the London securities market immediately before
the First World War. The most well-know were the Exchange’s vote in 1909 to enforce
strictly the separation of capacities between brokers and jobber, and its introduction of
minimum commissions in 1912.77 During and after the war, the Committee imposed
increasingly harsh restrictions on members of German origin until they were excluded
altogether. Each of these developments undermined the Exchange’s competitiveness and
limited its capacity to transact international business. At the same time, the war’s
economic consequences dealt powerful blows to London’s position as an international
capital market. From 1915, foreign lending was subject to an official embargo, although
the British dominions could still borrow with Treasury permission for essential public
works. For much of the period after the 1918, restrictions on overseas lending continued
to operate through less formal cooperation between the Treasury, the Bank of England
and the City.78

After the First World War, British capital exports fell below the levels before
1914. Empire borrowers, however, increased their share of this diminished total,
accounting during the 1920s for an annual average of 40 per cent of overseas public

77 Michie, London Stock Exchange, pp. 113-16.
issues. Australasian governments were particularly prominent.79 Besides the continued involvement of the issuing brokers and their connections in marketing new loans, the Stock Exchange remained important to these borrowers in two ways. First, the necessity of a London quotation still provided a means by which private investors could put pressure on vulnerable borrowers. In 1920, the British land companies with properties in Australia organised City opposition to a Queensland loan on the pretext that a recent increase of pastoral rents by the state’s Labor ministry amounted to repudiation.80 At the heart of their strategy was a Stock Exchange boycott. When the premier tried to explain his efforts ‘to dissipate the idea that the Labour policy was destructive to capital’, he was told that the Committee were ‘bound to interest themselves in the rights of British investors’, and reminded that they had the power to ‘remove quoted stock from the List … prevent the publishing of the record of markings … and forbid dealing’.81

Considerably less dramatically, throughout the decade, the Bank of England attempted to enlist the support of the issuing brokers in regulating the terms and timing of new capital issues for the empire, including Australia and New Zealand.82

In both cases, however, any influence that could be brought to bear through the Stock Exchange was constrained by the opportunities that now existed to borrow elsewhere, as well as the issuing brokers’ reluctance to submit whole-heartedly to the Bank of England’s guidance. In 1920, the Queensland government found the capital it needed in New York.83 Five years later, Nivison’s senior partner resisted the Bank’s pressure to help relieve the strain on sterling by raising money for South Africa in the

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81 ‘Conference with Premier’, 8 June 1920, Committee for General Purposes, Sub-committees of a non-permanent character, MS14609/7, GHL.
82 Attard, ‘Moral Suasion’.
83 In 1924, with a Queensland maturity due, the Bank of England’s solicitors, Freshfields, brokered an agreement between the premier and the land companies which left the pastoral rents at the new, higher level.
United States because he regarded it as ‘unwise and unnecessary’. For the rest of the decade, whenever conflicts arose, he supported his clients’ interests.

**Conclusion**

This study has explored some of the ways in which the Stock Exchange adjusted its rules and informal organisation in response to the transformation of the London securities market from the mid-nineteenth century. Some of these adjustments affected foreign and colonial borrowers equally. Most obviously, during the late 1850s and early 1860s, the Committee tightened its regulations for the listing of overseas government loans. Its earlier refusal to grant a quotation to defaulters also remained a powerful instrument for influencing overseas governments. Other innovations affected particular categories of borrowers. During the 1860s and 1870s, the Exchange’s members developed a syndicate system for absorbing new colonial issues which allowed for the customary specialisation by individual broking firms, as well as the jobbers’ requirements as market makers. After 1900, the underwriting system operated by the issuing brokers formalised these arrangements, providing borrowers with greater certainty but also strengthening the underwriters’ influence over the terms and timing of new issues. From this it was a short step to the loan queue of the 1920s and the Bank of England’s attempts to use the issuing brokers to regulate empire borrowing after Britain’s return to the gold standard. By then, however, the threat of greater competition from New York had subtly shifted the balance of power between borrowers and their agents.

The Great Depression finally brought an end to the long period of capital-raising in London by Australasian governments for public works. Like other colonial borrowers, they had played their part in the internationalisation of the securities market. At the same time, the Stock Exchange’s involvement in Australasian loans provided one example of the ways in which the City of London perfected its institutional and organisational arrangements for the export of capital after 1850. Further research may show how the Exchange made similar contributions with respect to other borrowers.

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84 Norman Diary, 29 June 1925, ADM34/14, BoEA.
85 For the queue, Attard, ‘Empire Borrowers’, pp. 200-1.
## Appendix: Capital subscribed to issues by overseas governments in London, public sale, £000

<table>
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<tr>
<th></th>
<th>1865-9</th>
<th>1870-4</th>
<th>1875-9</th>
<th>1880-4</th>
<th>1885-9</th>
<th>1890-4</th>
<th>1895-9</th>
<th>1900-4</th>
<th>1905-9</th>
<th>1910-14</th>
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<tr>
<td>National</td>
<td>35,811</td>
<td>146,101</td>
<td>30,133</td>
<td>36,342</td>
<td>51,579</td>
<td>16,245</td>
<td>59,328</td>
<td>35,767</td>
<td>80,332</td>
<td>76,677</td>
<td>568,315</td>
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<td>Colonial &amp; Provincial Governments</td>
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<td></td>
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<tr>
<td>Canada</td>
<td>2,478</td>
<td>7,027</td>
<td>9,584</td>
<td>3,265</td>
<td>9,545</td>
<td>7,066</td>
<td>2,516</td>
<td>1,036</td>
<td>16,417</td>
<td>27,888</td>
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<td>7,154</td>
<td>5,351</td>
<td>19,256</td>
<td>36,012</td>
<td>44,983</td>
<td>28,539</td>
<td>13,396</td>
<td>13,439</td>
<td>13,705</td>
<td>33,082</td>
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<td>4,825</td>
<td>12,098</td>
<td>8,126</td>
<td>17,848</td>
<td>15,650</td>
<td>32,087</td>
<td>9,956</td>
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<td>12,946</td>
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<td>6,358</td>
<td>5,101</td>
<td>51,940</td>
<td>14,527</td>
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<td>138</td>
<td>2,310</td>
<td>2,767</td>
<td>750</td>
<td>12,508</td>
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<tr>
<td>Total five colonial governments</td>
<td>12,691</td>
<td>21,943</td>
<td>58,511</td>
<td>65,609</td>
<td>82,108</td>
<td>57,751</td>
<td>55,410</td>
<td>79,138</td>
<td>69,575</td>
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Note: municipal bodies excluded.